Unit 1
Globalization

- Globalization is a process that promotes:
  - Economic interdependence of all the countries in the world
  - Integration of national economics into one global economy
  - Free movement of products across borders, world as single market
  - International free flow of capital, labour, management and technology
- Types of globalization
  - Economic globalization
  - Political globalization
  - Cultural globalization
  - Environmental globalization
- Drivers of globalization
- Declining trade and investment barriers
  - International trade
  - Foreign direct investment
- The role of technological change
  - The internet and worldwide web
  - Micro processor and telecommunications
  - Transportation technology
  - Implications for the globalization of productions
  - Implication for the globalization of market
- Global entry strategy
- Exporting (direct and indirect)
- Licensing and franchising
- Management contract
- Turn key operations

- Joint ventures and consortia
- Wholly owned subsidiaries (green-field venture or acquisition)
- Equity alliances
- FDI and portfolio investment
- Other strategic alliances
- Factors affecting globalizations:
- General agreement on tariffs and trade (GATT)
- World trade organization: is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties signed by WTO member states. Which is established in may 2005 (148 members).
- International monetary fund (IMF) and world bank both were created in 1944 by 44 nations that met at Bretton woods, new Hampshire.
- The United nations: established October 24, 1945by 51 member countries.
- International business
- International business involves the transactions between governments and private sectors across the borders. A country's government may get involved in transaction with another country's private firm and vice versa.
- The aim of government for doing international business are:
- Welfare of the people (through fulfillment of their needs)
- Image building of the country
- International business consists of:
    - International sales (import, export, and entrepot)
    - International investment
    - International transportation

Nature of international business

- Trade
- Foreign direct investment
- Intellectual property rights
- Technology transfer
- Movement of human resources

- Definitions
- *International business can be defined as those business activities that involve the crossing of national boundaries*-Taggart and McDermott
- *International business involves commercial activities that cross national frontiers*- Roger Bennet
- Rugman and Hodgetts *define- international business is the study of transactions taking place across national border for the purpose of satisfying the needs of individuals and organizations*
- Characteristics of international business
- Cross border transactions
- Competition
- Foreign currency
- Foreign laws
- Foreign environment
- Border management skills
- Objectives of international business
- Expand sales
- Acquire resources
- Minimize risks
    - Political
    - Market
    - Financial
- Evolution of international business (internationalization process)
- Foreign trade:
- Licensing
- Joint venture
- Strategic alliances
- Foreign direct investment
- Factors leading to growth of international business (Drivers of IB)

- Rapid technological advances
- Liberalization
- decreasing costs
- Supportive institution: WB, IMF, WTO, UNCTAD (United Nations Conference on trade and development)
- Regional economic groupings
- Increased competition
- Multinational corporations
- Difference between the international and domestic business:
- There are bases on which the differences of domestic and international can be highlighted:
  - Involved country
  - Different culture
  - Different political systems
  - Economic systems
  - Legal systems
  - Levels of economic developments
  - Marketplace
  - Production systems
  - Involvement of currency

• Unit 2
Theories of International trade investment

- **Concept and development of trade theories**
- The managers who involve in international trade should be familiar with international trade environment. The managers should be familiar with trade theories if they want to run the international trade in efficient and effective way. The trade theories that support the manager to run the international trade are follows:
- **International trade theories**
- The theory is useful to the business managers because it helps the manager to determine

the competitive advantages of producing a particular product. It clearly defines what product a country can produce effectively and efficiently. Which product they have competitive advantages.

- It helps the managers as well as the government policy maker focus on key questions as below:
- What products should we import and export?
- How much should we trade?
- With whom should we trade?
- While running the trade with any other countries we should be consider the competitive advantages. The international trades between the countries take place because the people have different needs and preferences and the countries are endowed with different resources. The country endowed more rightly
- With natural, human and technological resources may have different production or surplus production compared to other countries. Thus, the country enjoys the 'comparative advantage' over others. The same country may have no comparative advantage in producing another product which it should import from the country having the one.
- **Early trade theories**
- **Mercantilism**
- It is conventional doctrine, rather than a theory. According to mercantilism, countries should export more than what they import. If they are successful, they would receive gold from countries that run deficits.
- It has given importance to trade, but only to exports. Countries focused on accumulation of gold through more exports. Therefore, protectionism developed around the world for which they imposed tariffs and quotas. It believed that there was gain from trade, but at other countries cost.
- That is all countries involve in trade could not benefit; if one country benefited, the then other had to suffer and this concept had dominated world or almost 200 countries.
- One of the basics of mercantilism was that it accepted the state as supreme. Wealth was produced for the state, and it was the wealth of a nation, gained through trade, that made it great.
- Gold was the form of wealth which most admired and gold was obtained through a favorable balance of trade. The idea of increasing wealth through productivity did not occur, even to many businesspeople, for many decades.
- This theory had many consequences. It meant that one nation could only increase its wealth at the expense of another. Since the amount of gold is limited, a balance of trade that increases one nation's gold supply must necessary reduces that of some other nation. This resulted in fierce trade competition.

- It was challenged by French thinkers and argued that state should not interfere in trade and other matters. They thought that trade would effectively regulate itself to the best advantage if simply left alone. Laissez-fair doctrine became the watchword for this movement.
- **Laissez-faire**
- It is the source of development of what we call a "free market mechanism" today. It means 'let do' in French. It emphasized that the private sector should be permitted to work on its own, and the government must not have used any type of market-intervention policy. This may cause lawlessness, as it is 'too free.'
- In 1976, British economist, Adam smith wrote his landmark book, wealth of nations". Smith approved the laissez-faire principles of the physiocrats, among that government intervention only protects inefficient industries that otherwise would give way to more productive ones. Although smith's ideas were not immediately accepted, they provided an argument against mercantilism and influenced the long-term development of economics. Oddly, mercantilism underwent a powerful revival in the 20th century, though the influence of john Maynard Keynes and his followers. Keynes work was later also recognized as 'Keynesian economics'.
- **Theory of absolute advantage (Adam Smith's Theory)**
- This theory is developed by Adam Smith in 18th century which was regarded as first formal theory in international trade. According to this theory, a country's wealth is based on its available goods, and services rather than gold. It holds that different countries: thus global efficiency can increase through free trade. Smith's theory prescribes a country to specialize in those products that would give it a competitive advantage. A country's advantage would be either natural or acquired.
- Natural advantage is one that considers climate and natural resources while acquired advantage considers technology and skill development through human efforts and creation.
- Earlier, until the late 18th century, the theory of mercantilism was dominant. Things changed after Adam Smith propounded the absolute cost advantage theory in 1776.
- The following illustration shall present explain absolute cost difference and gains from trade:
- Absolute cost difference and gains from trade
- Country output per unit of labor
- A 2 units X 4 units of Y

B 1 units of X6 units of Y

- Absolute cost advantage to A in product X, because 2X> 1X
- Absolute cost advantage to B in Y because 6Y>4Y
- Specialization is recommended in respective products, for instance, country should specialize in product A, and B in product Y.
- Pre-trade exchange rate

- Country A: 1X=2Y
- Country B: 1X= 6Y
- Supposing that international exchange rate for trade is 1X=3Y, the trade theory recommends that:
- Country A exports 2X for 6Y, then net gain for country A will be 2Y (6-4).
- Country B exports 6y for 2X, then net gain for country B will b e 1X (2-1)
- This implies the increase in production and consumption levels in the trading nations involved in the above instance.
- **The comparative advantage theory (Ricardian theory)**
- It is developed by David Ricardo in 1817 in the 19th century. It explains that gains from trade will occur even in a country that has absolute advantage in all products because the country must give up or sacrifice less efficient output to produce more efficient output. This theory is also known as comparative cost theory of international trade.
- Comparative cost difference and gains from trade
- Country output of product X output of product Y
- A (Nepal) 4 units 8 units
- B (Bangladesh) 1 unit 6 units
- Pre trade exchange rate
- For country A: 1X=2Y
- For country B: 1X=6Y
- Therefore, we shall find:
- Comparative advantage for country A (Nepal) in product X (jute), because 4/1>8/6 (4>1.33)
- Comparative advantage for country B (Bangladesh) in product Y (cotton), because 6/8>1/4 (0.74>0.25)
- Specialization is recommended for country A (Nepal) in X (jute) and B (Bangladesh) in Y (cotton)
- So far as the gains of trade are concerned, we find the following under the assumption that international Exchange rate is 1X=3Y.
- If country A exports 4X in exchange of 12Y, then net gain for A will be 4Y (12-8).
- If country B exports 6Y in exchange of 2X, then net gain for B will be 1X(2-1)
- **Assumptions for applying the comparative advantage theory**

- There must be clear demand for those products (the jute and cotton in above case)
- The production gains are greater than the cost of trading (that includes transportation cost, tariff. Etc.)
- Products must be identical; that is, product differentiation concept does not exist there.
- Traders in both countries are aware of the cost differentiation existing between their countries. For this there should be an effective market information dissemination system.
- The cost differentials must be substantial or large enough to interest the entrepreneurs and traders.
- No other political or financial restrictions or imposition should affect or impede the trade activities.
- **The theory of country size**
- As per this theory, bigger countries differ in several ways from smaller countries, because:
- They tend to export a smaller portion of output, and import a smaller part of consumption, for example, USA, China or India
- They have higher transportation costs for foreign trade, for example, USA or China.
- They can handle large-scale production costs for foreign trade (i.e., size of economy and production scales)
- **The factor proportions (endowment) theory/H_O Theory**
- It is developed by Heckscher and Bertil Ohlin in 20th century; this theory is based on country's production factors, namely, land, labor, and capital. The theory holds that factors in relative abundance are cheaper than factors in relative scarcity. It explains the basis of international trade in terms of factor endowments. Factor endowment refers to how much factor of production a country has been endowed with by the Mother Nature. If labor, for example, were abundant in comparison to land and capital, labor costs would be low relative to land and capital costs (i.e., rent and interests respectively). If labor were scarce, labor costs would obviously be high against land and capital costs.
- These relative factors costs would lead countries to excel (do better) in the production and also exports, which have used their cheaper, abundant factors of production.
- **The international product life cycle (IPLC) theory**
- This theory has been developed by Raymond Vernon, in which he states that companies will manufacture in the countries those products first in which they were researched and developed (R&D). Obviously, they are almost industrialized countries.
- The theory holds that over the products 'life cycle in the context of international market, production will shift to foreign location, especially, to emerging economies as the product reaches the stages of maturity and decline. The innovating nation no longer will have production advantage at those stages, because markets and technologies are already wide-

spread. So, plants began to move to emerging nations' markets where unskilled, inexpensive labor can be made efficient for standardized (or capital intense, for example) production processes. Exports decrease from the innovating country as foreign production displaces them.

- In any given market, products pass through four distinct phases of life cycle in the international market: introduction, the growth, the maturity and the declining and death. The product, as it passes through any of these phases, will have to explore for markets. If they were to survive and sustain, for example, a product declining or dying (declining and death stages) in one market can be introduced afresh in other markets where it would go into introduction or growth stages.

- **Application of IPLC to international business**

- The IPLC theory-when applied to international business or trade-emphasizes on price and cost changes and changes in production process for explaining the existence of multinational firm (investment or trade in foreign country).

- When the product is at the introduction stage, both the product price and costs are high. As the product passes from introduction to growth stage, the production becomes physically differentiated in the marketplace. The price and costs still remain relatively high, since new and specialized equipment is brought is brought into, so that we can cope with the rising demand.

- When the product enters the maturity stage, there are many competitors in the market place, and demand and price are highly elastic. The product has to be psychologically differentiated to be sold. Since the production takes place on a large scale, the production cost falls drastically.

- International business firms should exploit this relationship existing among the price, cost and production, for which they can move products from unattractive markets to more attractive ones. Thus, while personal computers of the second latest generation are in their early maturities in the US market, they are at their early growth stages in Nepal or Bhutan. Hence, the trade theory says that it is beneficial to move the product from the US market to Nepalese and Druk (Bhutanese) markets. It is important, however, to note that this approach is feasible as long as the demand can be created or utilized in that market.

- The theory of national competitive advantage(Porter's diamond):

- Prof. Michael porter of Harvard Business School conducted the extensive research on 100 industries in 10 countries in 1990. his team attempted to explain why a nation achieves international success in a particular industry. Why does Japan do so well in automobile industry, and Switzerland in luxury watch and pharmaceuticals? Or, why do Germany and United States do well in chemical industries? . These questions could not be easily answered even by the Heckscher-Ohlin theory and competitive advantage theory.

- Porter tried to solve the puzzle by identifying determinants of national competitive advantage. As per this theory there are four attributes characteristics that always shape the environment in which local firms compete.

  - Factor endowment
  - Demand conditions
  - Related supporting industries
  - Firm strategy, structure and rivalry
- FDI-based theories (international investment theories):
- Monopolistic advantage theory
- Product and factor market imperfection theory
- International product life cycle theory (IPLC)
- Internationalization theory
- Eclectic theory:
  - Ownership specific advantage
  - Location specific advantage
  - Internationalization advantage
- Modified theories for third world firms
- Implication of international trade theories:
- The main implication of international trade theories is that international trade occurs because of relative price differences among nations. These differences come from differences in production costs and efficiencies, which result from the following:
  - Differences in the endowments of technology that determines the factor intensities used in the production.
  - Differences in the endowments the factor of productions.
  - Differences in the efficiencies with which these factors intensities are utilized.
  - Effect of foreign exchange rates.
- on the basis of above discussion the following implications may be inferred:
  - Free trade implication
  - Trade pattern implication
  - Trade competiveness implication
- Implication of international investment theories:
- Market imperfections

- Location advantage
- PLC advantage
- Competition
- The market in developing countries.
- Contemporary issues in international trade:
    - Free trade, fair trade and protectionist trade
    - Trade facilitation and trade policy harmonization
    - Subsidies and countervailing
    - Transit facility for land-locked nations (LLNs)
    - Containerized trade and dry ports
    - Sanitary and phyto-sanitary measures
    - Technical barriers to trade (TBT)
    - Trade capacity building
    - GSP and preferential system of trade
    - Dumping and anti-dumping measures (ADM)
    - Voluntary export restraints (VER)

The end

- **Country similarity theory**
- According to this theory, most trade today occurs among industrial countries because they share similar market segments, and because they produce and consume so much more than emerging economies, like Vietnam or Romania.
- For example, US is the world's largest trader and eight of its 10 largest trading partners are either industrialized nations. Canada, Japan, and Mexico are the top three largest trade partners of USA. The same thing applies to Australia until recently; China has overtaken the US as Australia's largest source of imports by the September 2005.
- Globally, 11 of the 12 largest traders are the industrialized or newly industrialized countries.
- The fact that so much trade takes place among industrial countries is due to the growing importance of acquired advantage (product technology) as opposed to natural advantage (agricultural products and raw materials in the unprocessed form) in the world trade. Hence, this theory says that once a company has developed a new product in response to observed market conditions in the home market. It will turn to those markets which it sees as most similar to those at home. For example, the United State may find similar markets in Canada

and even in Mexico and EU countries.

- **Opportunity cost theory (Gottfried Haberier, 1993)**
- This theory states that cost of producing a particular good is the goods which have to be foregone to obtain this good. Countries should specialize in production of goods in which they have opportunity cost advantage for international trade.
- The indicators of opportunity cost are the production possibilities curves.
-
- **Barriers to international trade/business (Trade barriers)**
- They are the trade barriers which are also known as trade restrictions or trade control on international trade.
- The international trade is generally characterized by trade barriers. It is natural that countries use trade barriers for protecting their domestic products, but now countries use them also as retaliation against those foreign countries that have discriminated against our products.
- Obviously, countries have no control on its exports which the foreign country controls, instead. So, all they can control or restrict is the imports from foreign countries.
- **Reasons for using trade barriers**
- **To correct a balance of payments (BOP) deficit**: this type of deficit occurs when the total payments leaving a country are greater than the money in receipts entering from abroad. The country then tries to limit imports and increase exports to make the balance of payments by imposing trade barriers on imports.
- **To ensure national security and supply**: the country sometimes restricts exports of critical raw materials, high technology, or equipment when such export purportedly might harm its own welfare or national security.
- **To protect domestic industries against competition of foreign goods:** This is generally on the grounds that infant industries need to be shielded from foreign competition during their start-up periods. A country usually offers protection to its domestic industries by taxing imports of similar foreign goods. The tax may be leveled as a percentage of the value of imports, which is called an ad valorem tariff. When a tariff is added to the price of a foreign products coming into a country. It raises the price of the item to the consumer.
- **Generate government revenue from tariffs on imports**: country apply tariff barriers in particular imported goods means that the country's government also collects in form of import duties on the customs. Tariffs are always a major source of government revenue in most countries including Nepal. Import duties or tariffs and value added tax are the two largest source of revenue in Nepal.
- **Types of trade barriers**
- **Tariff barriers**

- **Non-tariff barriers (popularly known as NTBs)**
- **Para tariff barriers (G.R. agrawal)**
- **Tariff Barriers**: Tariff is a tax on goods that are traded internationally. It is added to the price of goods and directly provides price protection. The tariff barriers can be:
- **Export tariff:** it is a tax charged on goods sent out of country. It is generally ad valorem imposed as a percentage of value of goods exported.
- **Import tariff**: it is tax on goods brought into the country. It is known as customs duty. It is generally as valorem imposed as a percentage of the value of goods imported.
- Countervailing duty may be imposed on imports to offset export subsidy provide to exporters.
- **Countervailing duty**: it is a permanent surcharge imposed on certain imports when the products are subscribed by foreign governments. It is charged on those imported goods to which the exporter's country have had given subsidy. In other words, countervailing duty is one which is imposed by the importing countries on the imports that had enjoyed in the subsidies in the exporting nation. Thus, such duties offset (compensate for) a special advantage or subsidy allowed by the exporter's government.
- **Specific duty**: it is a tax based on number of items exported or imported. The value of the goods is disregarded.
- **Compound duty**: it is a tax consisting of both ad valorem and specific duty. It is based on both the value and number of items imported or exported.
- **Transit tariff:** it is tax levied on goods passing through a country. Tariff barriers raise revenue, discourage imports and make local products more attractive
- **Non-tariff barriers:** Non-tariff barriers are rules, regulations and bureaucratic red tapes. They delay or prevent purchase of foreign goods. They limit imports by providing indirect non-price protection.
- **Quotas:** it is quantity limit on the volume of imports or exports. They restrict the number of units or share of market. Licensing can be used. A quota set at zero is called Empargo. It prevents imports from particular countries.
- Some countries resort to voluntary trade restraint for export and others tie-up imports with exports.
- **Subsidies:** it involves use of public funds by the government to lower costs. They can be direct or indirect. They help domestic companies with imported products.
- **Local content requirement**: it specifies that a specified percent of value must be sourced locally to avoid import duties. Exports are subject to this restriction.
- **Technical and bureaucratic barriers**: they are restrictive specifications of technical standards. They relate to:

- Quality standards for products, laboratory testing
- Consumer safety, health and sanitary regulations; bio-security
- Packaging and labeling
- Quarantine requirements for imported goods
- Documentary requirements and bureaucratic delays in processing documentation
- Antidumping restriction
- **Procurement policies**: they favor domestic producers. A buy local policy is an example.
- **Exchange controls**: they restrict the availability of foreign currencies to pay for imports. Foreign exchange licensing and variable exchange rates can be used. Foreign earnings may need to be deposited in central bank for export earnings.
- **Para-tariff barriers:** They consist of border charges, fees, and local taxes other than tariffs on imports and exports. They can be:
- **Custom valuation systems**
- **Tariff classification systems**
- **Fees, special charges, local taxes**
- **Regional economic cooperation**
- Regional economic cooperation is economic alliance among the countries of a particular geographic region in a regional grouping. Member countries have common history, socio-cultural similarities and similar awareness about regional problems.
- It represents:
- Preferential economic arrangements among the member countries
- Elimination of barriers on the intra-region flow of goods, services, capital and labor. Huge sizes of markets are created. Uniform regulations are established.
- Customers driven by comparable motives, needs and preferences.
- Common objectives of accelerating economic growth, strengthening collective self-reliance and promoting active collaboration for mutual benefits.
- Opportunities to member states and threats to non-member states.
- Increase in production efficiency through economies of scale to compete globally. Competitive capacity increases, markets complexity decreases
- Reasons for regional economic integration and co-operation
- There are following reason of joining economic integration by the countries.

- **Geographic proximity**: The goods need to travel in trading activities between the trading partners are short. The close countries or geographically near country can run their economic activities in integrated way so that they can solve their problems and use opportunity to gain economic benefits.
- **Consumer's tastes and preferences**: Consumers living in this area have common types of tastes and preferences because of geographically close.
- **Distribution channels**: Distribution channels can be easily established in neighboring nations. Distribution channeling job becomes easier when you are involved in countries of the same region.
- **Common history and interests**: Neighboring countries have a common history and interests, and may be more willing to co-operate their policies.
- **Common economic and trade opportunities, and problems**: Neighboring countries naturally share common economic and trade opportunities and problems. For instance, widespread poverty, and women trafficking are common to all SAARC countries. The nature of poverty incidence is common to all SAARC nations but it is different from USA and EU nations.
- **Levels of regional economic cooperation**
- It can be of following levels:
- **Free trade area**: This is created by the agreement among the member countries and they abolish tariff and non-tariff barriers for trade within the region. Members are free to levy tariffs on imports from non-member countries. This modality involves least integration. South Asian Free Trade Area (SAFTA) is an example of free trade area.
- The preferential agreement is made between the member countries to allow trading on preferential terms. The member countries either can remove tariffs or imposed quota system.
- **Customs union**: The member countries abolish barriers to intra-region trade and maintain a common tariff wall for imports from non-member countries. There is common external tariff. The degree of integration is higher than free trade area.
- **Common market**: In common market, member countries have common external tariff and free movement of factors of production. They can be labor, capital, technology and management. Business methods, rules and procedures are made common. Resources are optimally allocated and utilized. The degree of integration is higher than customs union.
- **Economic union**: It another type of integration in which member countries have harmonized money, fiscal policy and other economic policies. A single currency is used. The degree of economic integration is the highest in this modality. It is full economic integration. EU (European Union) is on the way to economic union.
- **Political union**: The member countries lose their national identities and form a single state. It is the highest form of overall integration. There is no national sovereignty. East Germany and West Germany joined together which is the example of political union.

- **The effects of economic co-operation and integration**
- **Static effects:** The static effects of economic integration are the shifting of resource from inefficient to efficient companies as trade barriers are eliminated. Static effects may develop when either of the two following conditions occurs.
- **Trade creation**: It happens when the production shifts to more efficient producers for reasons of comparative advantage, allowing consumers access to more goods at a lower price than would have been possible without integration.
- **Trade diversification**: It is found when trade shifts to countries in the group at the expense of trade with countries not in the group-even though the non-member country's company might be more efficient in the absence of trade market.
- **Dynamic effects**: Dynamic effects of economic integration are the overall growth in the market and the impact on a company of expanding production and achieving greater economies of scale. Another dynamic effect is the increase in efficiency due to increased competition. Many MNCs in Europe have, for example, attempted to grow through mergers and acquisitions to achieve the size necessary to compete in the large market.
- **Benefits and costs of regional economic cooperation**
- **Benefits of regional economic cooperation**
- There are several benefits to the member countries for joining regional economic cooperation which are as follows:
- **Trade creation and diversification**: The removal of trade barriers from the member countries will create an environment for the international trade. Resources are efficiently utilized by industries for comparative advantage. The size of market will increase for the member countries which promotes intra-trade expansion.
- **Economies of scale:** the economies of scale in manufacturing become possible due to the expansion of market size. Large scale production is possible in enlarged market at lower per unit cost. Free flow of factors of production among the member countries facilitates better allocation of resources that reduces the prices along with the transportation cost.
- **Collective self-reliance**: The member countries develop collective self-reliance through harmonization of economic policies and removal of barriers to trade and factors of production flow.
- **Increased foreign direct investment:** The removal of trade barriers will positively increase the flow of foreign direct investment in the country as well as in the region. It will increase the confidence of the investment partners and run their business in the region. The joint-venture investment can be found increased as a positive effect of integration.
- **Dynamic effects:** They result from innovation, economies of scale and increased size of market. The competitive environment will create pressure to the organization for change and growth. Mergers and acquisitions take place. Efficiency increases due to increased competition among member countries.

- **Costs of regional economic cooperation:** They are:
- **Competition:** Small members face competition from larger members which cannot be considered as healthy competition. This tends to kill domestic industries in the smaller countries.
- **Resources limitation:** Lack of capital and technology limits the benefits of regional cooperation.
- **Poor mobility:** The free flow of factors of production is constrained by political and other problems.
- **Polarization of benefits:** Benefits may get concentrated in selected member countries. Growth in a country can attract further growth.
- **Important regional economic cooperation groups**
- **EU (European Union)**
- **EU (European Union)**
- EU was established by treaty of Rome in 1958 by six original members, Belgium, France, Holland, Italy, Luxembourg, and West Germany. By 1995, its member nations numbered 15, which reached 25 in 2004 and 27 by the turn of 2008. The EU's motto is "united in diversity".
- It is a supranational entity of 27 European nations dedicated to European economic and political integration. Today, the EU represents 450 million people of the European continent. It is, therefore, the largest and most comprehensive of all the regional economic groups in the world. It has begun just as a customs union, but the formalization of the European Parliament and the establishment of a common currency, the Euro, has made it the most ambitious and advanced of all the regional trade groups.
- The objectives of EU are as follows:
- To eliminate customs duties between member states
- To establish an external common customs tariff
- To introduce a common policy for agriculture and transport
- To create a European Social Fund
- To establish a European Investment Bank
- To develop closer relations between member states
-
- It was formed in 1958 and from 2008 reached 27 members as a powerful economic and political union. It is leading the way in regional cooperation. The main institutions of EU are:
- **European council**: it consists of head of the states of member countries and president of European commission. It sets policy directions and resolves policy issues.

- **European commission**: it is responsible for proposing and implementing EU legislation and monitoring compliance with EU laws. It is executive branch of EU.
- **Council of ministers**: it is the major policy decision making body which is also known as controlling authority. It represents interests of member countries. Excepting budget, it is responsible for final EU decisions.
- **European parliament**: it is directly elected by people of member states. It has 630 members. It is a consultative body. It discusses and suggests amendments to EU laws. It is a watchdog for EU expenditures.
- **Court of justice**: it is supreme appeals court of EU law. It comprises of one judge from each member country. It is official interpreter of EU laws.
- EU has introduced Euro as a common currency since january1, 2002. It is adopted by 12 of its 15 members; Britain, Denmark, and Sweden have not used Euro. Similarly 10 new members are not using Euro.
- Under the provision of Maastricht Treaty, the EU is present by working to create an economic and monetary union, or EMU that will include a European Central Bank (ECB) and single European currency. Implementation of the EMU will require it to work out the extent to which countries sharing euro need to coordinate taxes and budget.
- Euro as common currency will eliminate costs associated with currency conversation and exchange rate uncertainty making easier for consumers in the member states to compare pricing of goods and services they need to buy. It is the achievement of European Union.
- Another achievement European Union has achieved is single market which was toughest challenge for EU. It was long struggle from 1985 to draft and adopt the hundreds of directives needed to sweep away the technical, regulatory, legal, bureaucratic, cultural, and protectionist barriers that stifled free trade and free movement within the Union.
-
- **Features of European Union**
- **European central bank**
- **Common currency (Euro)**
- **Single market**
- **SAARC**
- SAARC (south Asian Association for Regional Cooperation) comprises eight countries of south Asia; Afghanistan, Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan and Sri Lanka. It was established on 8 December 1985. Its primary objective is to accelerate the process of peace, freedom, social justice and economic prosperity. It fosters mutual understanding, good neighborly relations and meaningful cooperation among member states.
- **Objectives of SAARC**

- Promote welfare of the peoples of south Asia, improve their quality life.
- Accelerate economic growth, social progress and cultural development in the region; provide individuals the opportunity to live in dignity and to realize their full potential.
- Promote and strengthen collective self-reliance among members.
- Contribute to mutual trust, understanding and appreciation of one another's problems.
- Promote active collaboration and mutual assistance in the economic, social, cultural, technical and scientific fields.
- Strengthen cooperation with other developing countries.
- Strengthen cooperation among themselves in international forums on matters of common interests.
- Cooperate with international and regional organizations with similar aims and purposes.
- **Principles of SAARC**
- As regional cooperation of South Asian Countries, the following principles and provisions guide cooperation within the framework of SAARC:
- Respect for sovereign equality, territorial integrity and political independence of member states.
- Non-interference in the internal affairs of other states.
- Mutual benefits
- Complementary to bilateral or multilateral cooperation.
- Consistent with bilateral and multilateral obligations of member states.
- Unanimity-based decisions
- Exclusion of bilateral and contentious issues from deliberations
- **Achievement of SAARC**
- The integrated program of action (IPA) has become the key component of SAARC process. Seven technical committees and five regional centers have been engaged in coordinating and promoting cooperation. Three new centers have been established.
- Economic agenda including poverty eradication has been given a high place on the SAARC agenda since 1991. Trade fairs have been organized.
- SAPTA (South Asian Preferential Trading Arrangement) signed in January 2004, has emerged as a landmark for regional economic and trade cooperation. SAFTA (South Asian Free Trade Area) is a move towards trade without barriers in member countries. It aims to promote fair competition and equity in benefits to member states. It came into force in January 2006.

- **Future perspective**
- The political animosity between India and Pakistan has adversely affected the growth of SAARC. The progress at all fronts has been slow.
- It is hoped that statesmanship of south Asian leaders will remove obstacles to growth of SAARC. After all, twenty years do not constitute a very long period in the history of regional cooperation to bear fruits.
- SAARC should have a fifty year vision in view of a fundamental asymmetry among member states. The costs of non-cooperation can be very high.
- **ASEAN**
- Association of South East Asian Nations was formed in 1967. It has ten members which are as follows:
- Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam
-
- **Objectives of ASEAN**
- To accelerate the economic growth, social progress and cultural development in the region through joint spirit of the region and equality and partnership in order to strengthen the foundation for a prosperous community of Southeast Asian nations.
- To promote regional peace and stability through abiding respect for justice and the rule of law in relationship among countries of the region and adherence to the principles of the United Nations Charter.
- To promote active collaboration and mutual assistance on matter of common interests in the economic, social, cultural, technical, scientific and administrative fields.
- To provide assistance to each other in the form of training and research facilities in the educational, professional, technical and administrative fields.
- To collaborate more effectively for greater utilization of their agriculture and industries, the expansion of their trade, the improvement of their transportation and communication facilities and then raising of the living standards of their people.
- To promote Southeast Asian studies.
- To maintain close and beneficial cooperation with existing international and regional organizations with similar aims and purposes.
- ASEAN has a preferential trading arrangement system. But the system covers only about 5% of ASEAN trade. In 1992 “ASEAN free trade area” (AFTA) was established. A common effective preferential tariff has come in force.
- **SAFTA**

- To reduce the intra-regional tariff and non-tariff barriers to trade in South Asian region, SAFTA has been established and it increased investment attractiveness in the region. It tries to further accelerate the regional trade and cooperation. The SAARC nations agreed to initiate SAFTA from January, 2006, though it was signed at the 12th SAARC summit in January 2004. The foundation was put in 2004 and the member countries agreed to impose the agreement from January 2006 which was not actually the established date of SAFTA but it was two year later though the discussion was running quite earlier.
- It has some positive and negative impact on Nepalese businesses which are as follows:
- **Positive impact**
- Economies of scale
- Low costs of transactions
- Special privileges for least developed countries
- Comparative advantages
- Uniform SAARC voice on trade related matters
- Increased investment opportunities
- Trade diversification
- Tourism network
- **Negative impact**
- Increased competition
- Revenue loss
- Deficits in balance of payments
- Little investment linkage political problems
- Transit problems
- Poor mobility of people
- **BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation)**
- Bay of Bengal Initiative for Multi-sectoral technical and Economic Cooperation (BIMSTEC) was established as another Asian regional grouping. It was created at a meeting in Bangkok through the Bangkok Declaration on 6th June 1997. Its original name was Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic cooperation (BIMST-EC).
- Objectives of BIMSTEC are as follows:
- To create favorable environment for economic development through identifiable and implementation of special assistance projects

- To promote social and economic progress through joint efforts based on equality and partnership
- To promote active collaboration and mutual assistance in economic, social, technical and scientific fields of common interests
- To provide cooperation to one another for provision of training and research facilities in educational, vocational and technical fields
- To provide effective assistance through joint efforts in the national development of member countries so that standard of living increases, employment is created and transport and communication infrastructure improves
- To establish close and advantageous cooperation with international and regional organizations with similar aims and purposes
- BIMSTEC has been established as inter-regional grouping including four members of SAARC two members from ASEAN (Thailand and Myanmar). Therefore, it is the cross-regional integration in the sector of economic cooperation and investment. It supports for the increase of the trade and investment linkages.
- **Functions of BIMSTEC**
- To administer and implement agreements reached by member states, e.g., FTA (free trade area) agreement
- To act as a forum for promotion of cooperation among member countries in specified areas
- To provide cooperation to one another among members
- To increase cooperation with international and regional organizations with similar aims and purposes
- **Features of BIMSTEC**
- A cross-regional integration of cooperation between the SAARC and ASEAN nations such as Nepal, India, Bangladesh, Bhutan, and Sri Lanka from SAARC and Thailand and Myanmar from ASEAN
- Cooperation in economic and trade sectors
- The BIMSTEC economic forum conceptualized at Dhaka meet in 1999
- As a representative group of both the public and private sectors
- Role is to discuss matters pertaining to achieving the objectives of BIMSTEC and recommending to the annual ministerial meet
- Mechanism of BIMSTEC
- The main working mechanism of BIMSTEC is categorized as follows:
- Policy making body

- BIMSTEC Summit
- Ministerial meetings
- Operational body
- Coordinating body
- Expert group meeting
- The East Asian and Pacific countries have also organized their own Asia-Pacific Economic Cooperation (APEC) to suit the changing global political and economic scenario. It was formed in 1989 to promote multilateral economic cooperation in trade and investment in the Pacific Rim. At present, APEC has 21 members and is the largest economy of the world. The members of APEC are Australia, Brunei, Canada, Chile, China, Indonesia, Japan, Malaysia, Mexico, New Zealand, Papua New Guinea, Philippines, Republic of Korea, Singapore, Taiwan, Thailand and United States. All these countries border the Pacific Rim-both in Asia as well as the Americas.
- The head office of APEC is in Singapore and the purposes of APEC are as follows:
- To sustain the growth and development of the region for the common good of its people and, in this way, to contribute to the growth and development of the world economy.
- To enhance the positive gains, both for the region and the world economy, resulting from increasing economic interdependence, to include encouraging the flow of goods, services, capital and technology.
- To develop and strengthen the open multilateral trading system in the interest of Asia-Pacific and all other economies; and
- To reduce barriers to trade in goods and services among participants in a manner consistent with GATT principles, where applicable, and without detriment to other economies.
- Liberal trade and investment policies, successful application of modern technology in agriculture and industry, and human resource development are the key factors contributing to the economic restructuring of the South Asian Countries.
- The ASEAN and APEC countries pursued timely structural adjustment policies and displayed quick and flexible responses to the changing international economic environment. The per capita incomes of some South Asian countries have risen rapidly during the past two decades. The faster economic development achieved by the Asia Pacific region has made it a centre of economic dynamisms and world economic growth.
- **NAFTA (North American Free Trade Agreement)**
- NAFTA was formed in 1989 and its members are USA, Canada and Mexico. The aim of NAFTA is to eliminate all tariffs on trade among member nations.
- **Provisions of NAFTA include the following;**

- Abolition of tariff on 99% of goods traded between members within ten years.
- Removal of most barriers on cross border flow of services.
- Protection of intellectual property rights.
- Removal of most restriction on foreign direct investment
- Application of national environmental standards
- NAFTA's overall impact has been small but positive trade increased by more than double between members during 1993-2001. Productivity has increased.
- **OPEC Brief History**
- The Organization of the Petroleum Exporting Countries (OPEC) is a permanent, intergovernmental Organization, created at the Baghdad Conference on September 10–14, 1960, by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. The five Founding Members were later joined by nine other Members: Qatar (1961); Indonesia (1962) – suspended its membership from January 2009; Libya (1962); United Arab Emirates (1967); Algeria (1969); Nigeria (1971); Ecuador (1973) – suspended its membership from December 1992-October 2007; Angola (2007) and Gabon (1975–1994). OPEC had its headquarters in Geneva, Switzerland, in the first five years of its existence. This was moved to Vienna, Austria, on September 1, 1965.
- OPEC's objective is to co-ordinate and unify petroleum policies among Member Countries, in order to secure fair and stable prices for petroleum producers; an efficient, economic and regular supply of petroleum to consuming nations; and a fair return on capital to those investing in the industry.
- **WTO (World Trade Organization)**
- It is an international organization embodied in the result of the Uruguay round negotiations (1986-94) as a world trade body to succeed its predecessor GATT. It became effective since January 1, 1995 and it liberalized trade, and struggling to save the round from collapsing over rich-poor conflict on farm subsidies and market access problems after the Doha round of negotiation. It is headed by Director General having head quarter in Geneva with the secretariat of 630 staff, which has present 153 members (by December 2008)
- **Objectives of WTO**
- The initial objectives of WTO are as follows:
- Raising standard of living
- Ensuring full employment
- Increasing income
- Expanding production/operation
- Protecting environment (conservation and ecological balance)

- WTO makes use of trade as means to achieve the ends (five objectives mentioned above)
- **Main functions of WTO**
- Administering and implementing the multilateral and pluri-lateral trade agreements
- Providing the forum for multilateral trade negotiations
- Setting disputes (Dispute settlement body, or DSB has significantly contributed to enhancing the strength of WTO)
- Overseeing/monitoring national trade policy (of member countries)
- Providing technical assistance TA and training for developing countries
- Cooperating with the IMF and the World Bank
- **Principles of WTO are as follows**
- **Free trade area:** Trade should be without discrimination and no country to give special trading advantages to another or to discriminate against it. WTO members are bound to offer 'national treatment' for the people and products of other member countries. There should be nondiscrimination to promote fair trade.
- **Predictability**: WTO's next principle is that there should be predictable and growing access to markets. Domestic laws, regulations and practices should be transparent to be predictable. The access to market should also be secure and predictable.
- **Promotion of fair competition**: WTO is a system of rules dedicated to open, fair and undistorted competition. There should be transparency.
- **Encouragement to development and economic reform**: industrial countries should assist developing country members in their trading conditions by not expecting reciprocity and by providing market access.
- It encourages open trade and permits tariffs and other forms of protection but prohibits quota restrictions. TRIPS have appeared as the most controversial aspect of WTO. So have agriculture and labor aspects.
- **Structure of WTO**
- Ministerial conference
- General council
- DSB
- TPRB
- Councils for trade-in-goods, trade-in-services and trade-in-knowledge IPRs
- Goods councils

- Services councils
- TRIPS councils
- The other specialized committees and subsidiary bodies
- Working groups and working parties
- It has 153 members from April 2009. Membership is provided by consensus of all member countries.
- WTO classifies countries deserving preferential treatment into four categories they are:
- Least developed countries
- Developing countries
- Net food importing countries
- Countries in the process of transformation into a market economy
- **Impact of WTO on Nepal**
- **Positive impact**
- Trade expansion
- Trade diversification
- Freedom of transit
- Industrial development
- Dispute settlement
- End of bilateralism
- Image and power
- Special benefits
- **Negative impact**
- Erosion of preferences
- Price hike and competition
- Accession commitments
- Institutional requirements
- Gaps in theory and practices

Unit 3
Global Business Environment

- A business firm typically has the three levels of business environment: Remote, Industry, and operating environment.
  - Operating environment: it consists of the factors that come in the firm's operations: for example, they include competitors, creditors, labor and trade union, suppliers.
  - Industry environment: it consists of the industry-specific factors identified by the porter's 5 forces model; supplier power, buyer power, entry barriers, substitute-availability, and competitive rivalry for firms providing same products.
- Remote environment: it general environment consisting of the factors that all originate beyond and usually irrespective of any firm's operating situation.
- Typically, a firm's remote or general business environment is composed of external and uncontrollable factors put in an acronym of PEST-Ng that stands for:
  - Political and legal environment
  - Economic and financial environment factors
  - Socio-cultural (& human) environment factors
  - Technological environment factors
  - Natural environment factors
  - Global environment factors
- PESTLEG : political, economic, socio-cultural, technological, Global factors.
- political and legal/regulatory environment
- Economic
- Socio-cultural
- Trade/commercial
- Competitive
- Distributive
- Why the business environment analysis in IB?
  - To perform a 'prospecting' action to identify prospects of business that environment change can offer
  - To build on organization's strength

  - To exploit opportunities
  - To overcome the organization's weaknesses
  - To neutralize external threats
- Political and legal environment:
- The political system:
- A political system integrates the parts of a society into a viable, functioning unit.
- Executive (council of ministers and government bureaucracy)
- Legislative (parliament with upper and lower houses)
- Judiciary (court and other judicial and quasi-judicial authorities/institutions)
- People (political party and civil society)
- Collectivism Vs individualism
- Collectivism: It emphasizes on the collective goals rather than on individual goals and needs. In the political system, the needs, welfare and benefits of a society as a whole are given more importance than that of an individual.
- Socialism: it is described as modern form of collectivism.
- Individualism: it refers to the political philosophy and system that an individual should have freedom in her or his political pursuits. In this system, individual goals are important than collective goals. The needs, welfare, and benefits of a society are given less importnace.
- Democracy Vs totalitarianism
  - Democracy
  - Totalitarian system
- Trends in political system
  - Widespread democratization
  - Pluralistic form of democracy
  - Recognition and incorporation of human rights
  - Power devolution and decentralization to people's representatives
  - Erosion of communists/centralized system
  - Liberalization of socio-economic set-up.
- Actors in political system:

- Constitutional bodies:
  - Executive
  - Legislative
  - Judiciary
- Constitution and state structure:
- Structure of state and government
- Political parties
  - Political ideology and practice of political parties
  - Relationship between political parties
- Extra constitutional power block:
- Power transition mechanisms
- Supranational or multinational organizations
- Domestic competitors
- Special interest groups
- Political risks: Being the manager of the business involved in international business he/she must have the knowledge about the political factors affecting the business decision-making. Political risks can be termed as the risk that occurs because of political instability. As a result of risks, the existence of the company or compel the company to sell itself to others.
- Sources of political risks:

  1. General political risks:

- An international business entity is a guest of the host country and therefore, the host country reserves right of not only allowing it access, but also expropriating it. It also can influence the scale and dimensions of the operations through its policies.
- Thus political risks are the vulnerability of returns of q project to the political acts of a sovereign government.
- Types of general political risks:
- A). Government takeover of corporate Assets
  - Expropriation
  - Domestication
- B). Operational restrictions

- Agitation, war, Armed conflict, and violence
- Blockage of funds
- E). Embargoes and Sanctions
    - Sanction: it is the type of trade penalty imposed on one or more countries by one or more other countries. Sometimes typically take the form of tariffs, trade barriers, import duties, and import or export quotas.
    - Embargo: it is the official ban on export to or imports from a particular country. In order to isolate it and punish its government. It is generally more serious than a sanction and is used as it political punishment for some disapproved polices or acts.
- F). Terrorism
- Micro and macro political risks:

  2. Government intervention in economic activities and firms
    - Individualistic paradigm
    - Communitarian paradigm
- Concept of legal environment
- Legal environment is very closely related to the political factors that combine their forces to influence the international business.
- A country's legal system can be said to have two main functions:
    - To provide an enabling mechanism within which individuals and organizations can exist and operate.
    - To provide a means of resolving conflicts and of dealing with those who infringe the accepted standards of behaviour.

  Bodies of law:

  International laws

  Host country laws

  Home-country laws

  Major legal systems:

  Common law system

  Civil law (code law) system

  Social and religious (Theocratic) law system

  Actors in legal systems:

Government

Constitution and National laws

Constitution

National laws

- Actors in Legal system
    - National law affect local business activities
    - National law affect cross-border activities
    - International treaties and conventions govern some cross-border business transactions
  - Judiciary and court systems
  - Religious power groups
  - Supranational/international organizations
  - Regional organizations
  - Competing firms
  - Special interest groups
- E-commerce and legal system:
- E-commerce (electronic commerce) is a new form of business transaction where the internet is used in joining together suppliers with business firms and business firms with customers.
- In Nepal the electronic transactions Act 2008 has been executed since December 8, 2006 to deal with e-commerce, among others. The act in its 'preamble' clearly states 'legal provision for authorization and regulation of the recognition validity, integrity and reliability of generation, production processing, storage, communication and transaction system of electronic records by making the transactions to be carried out by means of electronic data exchange or by any other means of electronic communication reliable and secured.
- Internationally, there is the international customer protection and enforcement Network which was formed in 1991from an informal network of government customer fair trade organizations.
- It tries to find ways of cooperating on tackling consumer problems connected with cross-border transaction in both goods and services.
- UN also has taken a few steps. Besides, the UN convention on the use of electronic communications in international contracts (2005), there are two model laws under the UN system. UNCITRAL model law on electronic commerce (1996) and UNCITRAL model law on electronic signatures (2001).

- ***United States***, some electronic commerce activities are regulated by the Federal Trade Commission (FTC). Theses activities include the use of commercial e-mails, online advertising and consumer privacy. The CAN-SPAM Act of 2003 establishes national standards for direct marketing over e-mail.
- **In the United Kingdom**, the prudential regulation Authority and the financial conduct Authority has been the regulating authority for most aspects of the EU's payment services Directive (PSD), since 2013. It implemented the EU's payment services directive (PSD) through the payment services regulations 2009 (PSRs), which came into effect on 1 November 2009.
- **Australia**, trade is covered under Australian Treasury Guidelines for electronic commerce and the Australian competition and consumer commission regulates and offers advice on how to deal with the business online (e-commerce), and offers specific advice on what happens if things go wrong.
- **In India**, the information technology Act 2000 governs the basic applicability of e-commerce and in **China, on 25 September 2000**, the Telecommunications regulations of the People's Republic of China authorized the Ministry of industry and information technology (MIIT) as the government Department regulating all telecommunications related activities, including electronic commerce.
- Intellectual property rights and legal system:
- Intellectual property is simply the property of mind, and knowledge. Intellectual property refers to property that is the product of intellectual activity, such as computer software, a textbook, a drama, a music score, or the chemical formula for a new drug.
- Patents, copyrights, and trademarks establish ownership rights over intellectual property. Intellectual property rights take over a number of forms. Such as books, paintings, and firms relate to copyrights.
- The WTO's agreement on trade-related aspects of intellectual property rights (TRIPS) negotiated in the Uruguay round (1986-94), introduced intellectual property rules into the multilateral trading system for the first time.
- Contribution to Economy
- Components of IPRs
- Industrial property: It has mainly in patents and innovations, designs, trademarks, service marks, geographic indications, layout-designs (topographies) of integrated circuits and trade secrets.
- Copyright and related rights: They are concerned with art related works. They include creators' rights on their music, operas, films, dramas, computer programmes and databases, literary pieces, text books, and other similar works of arts, as well as pantomimes and choreographic works.
- Copy rights and related rights: Copy right is an intellectual property, which is related to literacy, artistic, scientific and research works, as stated above. It is registered right of the

creator to reproduce, publish, and sell the work.

- Trademark: trademark is any sign picture or word or their combination used by a person, firm or company to distinguish the goods and services from those of others.
- Geographical identification (GIs): a place name is sometimes used to identify a product. This 'geographical identification' does not only say where the product was made. More importantly, it identifies the product's special characteristics which are the product's origin.
- Industrial design: under TRIP'S agreement, industrial designs must be protected for at least 10 years. Owners of protected designs must ne able to prevent the manufacture, sale or importation of articles bearing or embodying a design, which is a copy of the protected design.
- Patents: patents is any new method of constructing, conducting or processing any useful invention based on a new principle or formula. Patent rights can be transferred but transfer of rights must be registered.
- Integrated circuits, layout designs: The basis for integrated circuit design (Topographies) in the TRIPS agreement the Washington Treaty on intellectual property in respect of integrated circuits, which comes under the world intellectual property organization (WIPO).
- Government intervention and investment barriers:
- How government policies affect performance of IB firms:
- Political reasons for Government intervention:
    - For protecting jobs and industries
    - For ensuring national security
    - For protecting consumers/buyers
    - For retaliating against unfair foreign competition
    - For furthering foreign policy objectives
    - For protecting human rights
- Economic reasons for government intervention
    - For protecting infant and indigenous industries
    - For implementing strategic trade policy
- Government intervention on international trade (instruments of government intervention on trade):
- They are the trade barriers which are also known as trade restrictions or trade control on international trade.
- The international trade is generally characterized by trade barriers. It is natural that

countries use trade barriers for protecting their domestic products, but now countries use them also as retaliation against those foreign countries that have discriminated against our products.

- Obviously, countries have no control on its exports which the foreign country controls, instead. So, all they can control or restrict is the imports from foreign countries.
- Cultural environment: Multiculturalism is an undeniable reality. Now a days, there can be cultural mix everywhere in the workplace such as different cultural, ethnic and caste groups, and with varied lifestyles. These different cultural factors are significant in international organizations where people from different culture backgrounds co-exist and flourish.
- As a business manager, he/she should deal with cultural differentiation.
- Culture is sum total of beliefs, rules, customs, techniques, institutions, and artifacts that characterise human populations.
- Elements/components of socio-cultural environment:
- Material cultural
    - Technology
    - Economics
- Social institutions
    - Social organizations (Guthis, cooperatives)
    - Education
    - Political structures
- Man and the universe (attitudes, norms and beliefs)
    - Belief systems
    - Values
- Aesthetics
    - Graphic and plastics arts
    - Folklore
    - Music, drama, and dance
- Religion
- Language
- History and geography
- Why culture matters in International Business?

- It is important for international business managers to have cultural awareness of the concerned countries so that they can effectively manage their business across borders. In other words, IB managers should be well aware of the socio-cultural values systems and practices in the countries they operate.
- At least four reasons explain why culture matters in managing IB:
  - Varying communication implications
  - Varying impact of social behaviours on IB
  - Impact of socio-cultural Nuances on business negotiations
  - Varying customs reactions to marketing
- Why culture matters in international business?
- **1. Varying communication implications:**
- Communication meanings vary across cultures: As an international business firms deals with two or more cultures and sub-cultures, managers need to have an understanding of the implications of various aspects of the culture.
- In practice there are hardly serious problems in verbal communications, as they usually do not give entirely different meaning and message in different societies and cultures. Verbal communications use words and 'words have meaning', as the communications experts say.
- Non-verbal communications are those which may be interpreted and perceived differently by different cultural groups as per their socio-cultural values and norms.
- **Non-verbal communications: varying cultural implications:**
- There are higher chances of the differences in non-verbal communications.
- Kinesics: kinesics is the study of the body's physical movements. Our faces, eyes, gesture, postures and physical appearance reflect our inner meanings.
- Poxemics: proxemics is a word derived from proximity, nearness in space and time. Proxemics involves how we arrange our personal space and what we arrange in it. If two person have sit very close in the classroom or office, it communicates that they are pretty intimate, close friends.
- Time language: it concern the meaning of time. Cultures teach us different meaning of time. In the US and European cultures, being on time is a virtue but the orientation is the South Asian countries including Nepal is quite different.
- Chronemics: chronemics refers to the timing of verbal exchanges. Americans expert prompt response in business too, and are uncomfortable with a slow response or silence.
- Paralanguage: Also known as paralinguistics, paralanguage involves how we say something. It involves those hints and signals in a person's voice that give us 'meaning'. The speakers emphasis, speed, and disjointed way of speaking have its language and meaning.

- Physical context: Physical context nonverbal communication refers to how color and layout/design communicate. It is the context of our surroundings. Generally in US and most of Europe, black and grey convey negative feelings, blue and yellow give positive feelings. We have also learnt and accustomed to associate colours with specific objects.
- Haptics: Haptics is all about touch language. It refers to the use of touch while talking face to face. Latin Americans mostly use touch in order to convey their messages. A Latino woman could expect to have not just her shoulders, arms and hands touched, but also her hair and face, all with good intentions.
- 2. varying impact of social attitude and behavior on IB: socio-cultural attitudes and behaviors affecting business vary across cultures. Social attitudes vary across cultures towards work, business (entrepreneurship), religion, risk-taking, social class or strata, politics, the role of women, respect for the law and social institutions.
- US managers frequently and constantly make mistakes in their cross-cultural interactions, esp. with Japanese and Asians:
    - Personal privacy Vs family-like work teams
    - Professional relations Vs family like relations
    - Life-long employment Vs competitive job hunting
- Accordingly, managers should identify the behavioral practices and cultural practices that vary across cultures in various countries:
- i. identification of behavioral practices affecting IB:
    - Social stratification systems
    - Nature of motivation
    - Relationship preference in workplace/ organization
    - Risk-taking behavior in business.
- Ii. Identification of cultural practices affecting IB:
    - The nation and nationalities (ethnicities) as a pint of reference.
    - The way culture is formed and culture changes over the time
    - Language as a cultural stabilizer
    - Religion as a cultural stabilizer
- 3. Varying CSR and Ethical standards: Standards of business ethics and corporate social responsibility (CSR) vary across cultures.
- 4. Impact of socio-cultural nuances (A minor distinction) on business negotiations:
- 5. Varying customer reactions to marketing

- Managing socio-cultural differences:
  - Harmonizing cross-cultural behaviors
  - Making little or no adjustment
  - Making communications effective
    - Spoken or written or verbal communication
    - Silent language or non-verbal communication
  - Managing ‘culture shock’
    - Reverse shock
  - Managing company and management orientations:
    - Ethnocentrism
    - Regio-centrism
    - Polycentrism
    - Geo-centrism
  - Implementing strategies for instituting cultural change:
- In deciding whether to try to bring change home country or host country operations. An international company should consider how important the change is to each party, the cost and benefit to the company or each alternative, the use of opinion leaders, and the timing of change. They are enumerated here below:
- Timing
- Value system
- Reward sharing
- Participation
- Opinion leaders
- Too much change
- Economic environment: Regional economic integration: Amid the waves of the globalization trade and business fuelled by globalization, a strong trend towards regional economic integration as well as regional economic co-operation has also emerged throughout the world.
- World trade organization as the rule based global trade body advocating for fair and free trade, many countries have pushed an accelerated movement towards regional economic cooperation and integration.

- SAFTA (south Asian Free trade area)
- BIMSTEC (bay of Bengal initiative for multi-sectoral technical and economic cooperation)
- ASEAN (Association of South East Asian Nations
- EU (European union) etc.
- Reasons for regional economic integration or cooperation:
    - Geographic proximity
    - Consumer's taste and preferences
    - Distribution channels
    - Common history and interest
    - Common economic and trade opportunities, and problems
- Types or stages of regional economic integrations:
- Preferential trading area (PTA): member countries give preferential treatment to each other by reducing tariffs. It is the most preliminary level of promoting regional economic integration through trade.
- Free trade area (FTA): The FTA's goal is to gradually eliminate all tariffs and other barriers to trade in products and services within the bloc when trading between member countries whereas members in FTA only reduce tariffs. SAFTA and NAFTA are good examples.
- Customs union: In addition to eliminating internal tariffs, member countries adopt common tariff and non-tariff barriers on imports from non-member countries. They harmonize their external trade policies applicable to their trade with non-member countries.
- Economic union: (or monetary union): To create a true economic union, member nations economic policies should be integrated ;in addition to having the free movement of goods, services and factors of productions across borders.
- Political-economic union: The ultimate development of an economic union takes form of a political union where member countries decide to shed their national political status, but share the single political identity. It is a perfect unification of all policies by a common organization; submersion of all separate national institutions into a regional political-economic entity.
- Leading economic/trading blocs: Regional groupings/blocs
- BIMSTEC
- Positive impact on Nepal's IB
    - Trade expansion
    - Greater potential for investments

  - Cooperation in infrastructure
  - Low cost of transportation
  - Prospects of tourism and Buddhist pilgrimage tourism triangle
- Negative impact on Nepal's IB
  - No special privileges to LDCs like Nepal
  - Increased competition
  - Challenge to manage transit and smuggling problems on the border
  - Challenge to find out comparative advantage areas
  - Limited factors of production
- SAFTA (south Asian free trade Area)
- EU (European Union)
- NAFTA(North American Free Trade Area)
- ASEAN (Association of South East Asian Nations)
- Emerging foreign markets:
- Emerging foreign market are the (Former) developing economies that have achieved substantial industrialization, modernization, and rapid economic growth since the 1980s.
- Although the opinions on which countries are emerging markets differ, the big emerging markets are China, India, brazil, Russia, South Africa, Argentina, and Indonesia.
- Five of them viz Brazil, Russia, India, china, and South Africa have created a BRICS group taking first alphabet of their country names.
- The factors that make these emerging markets strategically important include:
  - Favorable consumer demographics (size of population and diversity).
  - Rising household incomes and increasing availability of credit , and
  - Increasing productivity resulting in more attractive prices.
- China
- India
- Brazil
- The changing Demographics of the Global economy:
- The demographics of global economy have been changing dramatically over the past three

decades. It has come along with the trend of globalization.

- In the past (around the 1960s), there were four points to describe the demographics of the global economy:
  - There was US dominance in world FDIs
  - There was US dominance in world economy and trade
  - There was dominance of US multinationals in world IB Scene.
  - Almost half of the globe, particularly the communist economies in Europe, Asia and Africa was beyond the Western international business as they did not trade with Western countries.
- Changing demographics in world FDIs
- Changing demographics in world economic output and world trade
- Changing demographics in world MNCs
- Changing world economic order
- The currencies (foreign exchange): Foreign exchange is money denominated (marked) in the currency of another country or group of countries. The market in which these transactions take place is the foreign exchange market. An exchange rate is the price of a currency, usually in relation to another currency. Foreign market never sleeps because it operates 24 hour a day.
- Foreign exchange market has two major segments:
  - The 'over-the-counter' (OTC) market
  - Securities exchanges (the exchange traded market)
- Characteristics of foreign exchange market:
  - Market for trading forex instruments
  - Remarkable market fir size, composition and location
  - Wide use and dominant of the US Dollars
- **Types of foreign exchange system**
- When the gold standard system was collapsed in 1971, most developed countries adopted the floating foreign exchange rate system, while other nations have followed other systems as suitable to their needs.
- **Floating exchange system**
- It is one in which market forces govern the forex so that the exchange rate of the currencies is determined by the currencies demand and supply interactions. It allows the market to

determine the forex rate on the parity basis, expecting that the market corrects the discrepancies, if any, in the equilibrium. When there is no government intervention, the system is called (a) free floating system as in free-market economy. But, the system with the provision of government intervention in the market is known as (b) the managed floating system (or dirty system)

- **Fixed exchange system**

- It is the system that maintains the forex rate at a fixed level through government participation in the market. The goal of doing so is to support the country's development plans and balance its international trade, the fixed forex rate would be changed through currency devaluation and/ or revaluation. If the rate failed to maintain the country's balance of trade (BOT) and payment (BOP).

- **Controlled exchange system**

- It is opposite to the floating system. It is the system in which not the demand and supply forces of the currencies, but the government-usually its central bank- determines the rate. The government controls the rate as per the changes in its economic and monetary policies. The government does not permit forex trading in the market, and controls the rate by means of monopoly purchase and sale of forex, through its central bank and government agencies. This system may be operated either with fixed rate (a. controlled fixed rate system) or with floating rate (b. controlled floating system).

- **Pegged exchange system**

- It is the system in which the value of a currency is tied up to another foreign currency's value or to the average/ composite value of a basket of major foreign currencies. Weaker currencies are mostly pegged to stable foreign currencies. Currencies of Nepal and Bhutan have been pegged to Indian rupee and those of Hong Kong, Angola and Panama to the US dollar. Bangladesh and Thailand use the composite (basket) system with major ones. (International financial statics, 1991)

- Foreign exchange and foreign exchange market

- Foreign exchange is money denominated (market) in the currency of another country of group of countries.

- The market in which these transactions take place is the foreign exchange market. Freign exchange (forex) can be in the form of cash, funds available on credit and debit cards, traveler's cheques, bank deposits, or other short-term claims.

- An exchange rate is the price of a currency, usually in relation to another currency. The exchange rate is the number of units of one currency that buys one unit of another currency, and this number under the play of the market forces may change every day. Exchange rates make international price and cost comparisons possible. Currencies are mostly national, e.g., Nepal's rupees, china's Yuan or USs dollars. But with emergence of economic union like European Union, a common currency euro has also been brought into the market. Euro is common to all nations in the European Union.

- **Characteristics of the foreign exchange market**

- It is the place/market in which forex instruments are traded. The instruments are either traditional of modern/additional
- It remarkable for its size, composition and location.
- It is characterized by the US dollars as the most important and widely used currency unit. Of the late, euro has also emerged as a strong alternative to US dollars.
- The following discussion shall elaborate on the three salient features of the forex market:
- A place/market where forex instruments are traded
- The forex market is remarkable for its size, composition and location
- The forex market is characterized by the US dollars as the most important and widely used currency unit.
- **Forex instruments (types of transactions)**
- There are number of forex instruments traded in the exchange market all over the world. They may be traditionally used and new one as elucidated below:
- Traditional instruments
  - Spot
  - Ex swap
  - Outright forward
- Modern/ Additional instruments
  - Currency swap
  - Options
  - Futures
- **Spot:**
- Spot transaction involves the purchase of and payment of foreign currency with delivery and settlement to be completed normally on the following day. (pradhan, 1995). The rate at which the transaction has been settled is the spot rate. In other words, the spot rate is the exchange rate between two currencies for their immediate trade for delivery within two business days. It has amount for 60% of foreign exchange market.
- A spot rate includes in its contract the following terms and conditions:
- Currencies to be traded
- Spot exchange rate
- Amount of transaction

- Method of payment and delivery
- **Outright forward**
- If there is an involvement of exchange of currencies three or more days after the date of deal and it is transaction for future delivery is known as outright or forward transaction. The rate of transaction is known as forward rate. It is used to settle the forward transaction which have amount for 10% of foreign exchange market. In international banking system, the forward rate is committed for delivery in the future commonly 30, 60. 90. 180 days.
- The following terms and conditions are specified in a 'forward' contract:
- Currencies for forward exchange
- Forward exchange rate
- Amount of transaction
- Method of payment and delivery
- Forward period or maturity date (30, 60, or 90 days)
- **Fx-swap transaction:**
- It involves simultaneous spot and forward transaction. One currency is swapped for another on one date and then swapped back on a future date. Swap transaction account for about 30% of foreign exchange market. Most often the first leg of an FX swap becomes a spot transaction: with the second legs of the swap a forward or future transaction.
- **Currency swaps**
- They deal with interest bearing bonds. They involve the exchange of principal and interest payments. They are over-the-counter instruments. It is the simultaneous purchase and sale of a given amount of foreign exchange for two different value dates. Currency swaps are transacted between international business and their banks, and between governments when it is desirable to move out of one currency into another for a limited period without incurring any forex risk. Swaps deal more with interest-bearing financial instruments (such as bond) , and they involve the exchange of principal and interest payments.
- **Options:**
- They are right to trade foreign currency in future. They are not obligations. It can be traded over-the counter or security exchange. It is a contract that gives its holders a right to buy or sell assets at a predetermined price within a specified period of time. Options are very popular for financial and commodity transactions. Options for stocks, commodities and currencies are traded in many exchange centers.
- Options can be purchased not only on OTC (over-the-counter) from a commercial or investment bank, but also purchased on organized exchanges, such as international monetary market (IMM).
- In real life financial practices, an option is described only as the holder's right but not his

obligation to trade foreign currency in the future. International investors who sell options are known as ‘writers’.

- **A call option** is the one that provides the buyer the ‘right to buy’ the assets specified in the contract at a predetermined price any time during the option period.
- **A put option** is just the reverse of the call option. It provides the option buyer the ‘right to sell’ the assets specified in the contract at a predetermined price. The buyer can exercise his selling right any time during the option period in case of American option and right at maturity in case of European option.
- **Futures:**
- It is an agreement between two parties to buy or sell a particular currency at a particular price on a particular future date. A contact is entered. It guarantees a future price for the trading of foreign exchange.
- Theories for determining exchange rates
- **The purchasing power parity (PPP) theory**
- According to this theory, the exchange rate between one currency and another is in equilibrium when their domestic purchasing powers at that rate of exchange are equivalent. If there is a change in prices (i.e., the purchasing power of the currencies), the new equilibrium rate of exchange can be found out using the following formula:
- ER=Er X Pd/Pf
- Where ER = Equilibrium exchange rate
- Er = Exchange rate in the reference period
- Pd =Domestic price index
- Pf = Foreign country’s price index
- From the above formula we can conclude that inflation rate differential between two countries causes change in exchange rate. If the domestic inflation rate is lower compared to foreign country, the domestic currency will be stronger.
- **The balance of payment (Bop) or the general equilibrium theory or the demand and supply theory of exchange rate**
- Foreign exchange rate is determined by inflation, real income growth and interest rates. Increase in domestic prices and real national income causes larger imports. The increased demand for foreign currency depreciates the value of domestic currency. Increase in interest rate increases flow of foreign capital. The value of domestic currency appreciates.
- Roles of central bank in foreign exchange system
- Policy role

- Intervention role
- Control role
- Coordination role
- Confidence role
- Information role
- Role of commercial banks in foreign exchange system
- Wholesaler trading role
- Retail trading role
- Policy implementation role
- Control role
- Liaison role
- **Exchange Control and Liberalization Techniques**
- **Exchange control:**
- **Control for imports**
  - **License**
  - **Queue**
  - **Premium**
  - **Multiple rates**
- **Control for exports**
- **Control on capital flows**
- **Control on capital inflows**
- **Control on capital outflows**
- **Control on profit repatriation**
- **Control on foreign travel**
- **Other controls**
  - **Intercompany invoicing**
  - **Intercompany loans**
  - **Transfer pricing'**

- **Exchange liberalization**
- **Exchange liberalization policy cab be as follows**
- **Imports**
- **Market exchange rates**
- **Foreign exchange account**
- **Foreign investment**
- Modes payment in international trade:
- Advance cash payments: In this mode the cash is paid in advance. This it is the most secure mode for the exporter. The exporter collects payment before shipping the goods to the importer.
- Letter of credit (L/C): In technical banking terminology; a letter of credit or LC is known as documentary letter of credit (L/C). An L/C is a contract between the banks of an importer and an exporter that ensures payment from the importer to the exporter upon receipt of an export shipment.
    - Use of draft: In traditional banking while operating through letters of credit, draft is the major document to make payments in export and import trade. A draft requires payment for goods from a buyers (importer).
- Open Account: when the importer uses account, the buyer pays the exporter or some future time following receipt of the goods, in much the same way a retail customer pays a department store on account for products he or she has purchased.
- Counter trade: Making payments for the exported goods or delivered services through customer trade is relatively rare. Under this mode, there is a sort of better-trade agreement so that a country's firm receives delivery of some commodity for the goods/services it has exported for another country's firm. The counter trade mode of payment refers to a range of barter-like agreements by which goods and services can be traded for other goods and services, particularly when a country's currency is non-convertible.
- Global financial systems (GFS): Global financial system is the collective of financial institutions that facilitate and regulate investment and capital flows worldwide, such as central banks, commercial banks, forex markets, and national stock exchange. Key players in the system include finance ministries, national stock exchanges, commercial banks, central banks, the bank for international settlements the world bank, and the international monetary fund.
- The GFS is built on the activities of firms, and financial institutions engaged in ongoing international financial activity. It also has many linkages with national financial markets. Since 1960s, the global financial system has grown substantially in volume and structure, becoming increasingly more efficient , competitive, and stable.
- In our context, we discuss the following key components of the GFS:

- Foreign exchange market system
- Currency exchange control system
- Central and commercial banking system
- National stock exchanges
- Foreign exchange market system: the forex market is the major component of the GFS and has been already discussed.
- Currency exchange control system (Managed by the central bank): central bank's role may be enumerated as follows:
  - To coordinate the central bank's action with other central banks, or go it alone.
  - To enter the market aggressively to change attitudes about its views and policies
  - To call for reassuring action to calm markets
  - To intervene to reverse, resist, or support a market trend
  - To announce or not announcing its operations, being very visible or very discreet
  - To operate opening or indirectly through brokers.
- Commercial banking system: The commercial banks are the major agencies that materializes the foreign exchange system, or translates it into action.
- The basic functions or role of commercial banks in the forex system are:
  - They buy and sell foreign exchange
  - They collect and pay money in transactions with foreign buyers and sellers
  - They lend money in foreign currency, and
  - They also provide counseling services and information to international business clients (customers) and relevant information even to the central bank
- National stock exchanges: Stock exchange play an important role in the GFS selling stock(Shares ownership) is an important way for firms to raise the funds they need to engage in international business. A stock exchange is a facility for trading securities and other financial instruments, including shares issued by companies. Trust funds, pension funds, and corporate and government bonds.
- Information technology has revolutionized the functioning of stock markets, greatly reducing the speed and cost of transactions.
- In Nepal, NEPSE (Nepal stock Exchange) is in place.
- Issues in international Business:

  - It is central that international businesses understand the influence of exchange rates on the profitability of trade and investment deals.
  - Managers of international business should also understand the forces that influence the exchange rates.
  - Due to the rise in inflation, a profitable business in the foreign market may turn out to be unprofitable.
  - The issue of currency convertibility complicates the international business.
- International economic/financial institutions:
- World banking system:
  - IBRD (International bank for reconstruction and development)
  - IMF (International monetary fund)
  - IDA (international Development Association)
  - International finance corporation (IFC)
  - MIGA (International investment Guarantee agency)
  - ICSID (international centre for settlement of investment disputes.
- IMF (International Monetary Fund)
- ADB (Asian Development Bank)
- New multilateral development banks
  - AIIB (Asian infrastructure investment bank): October 24 2014.
  - NDB (New development Bank) proposed by BRICs countries.
- ITO (International trade organization)/WTO
- WTO (World trade organization) and free trade policies:
- Objectives of WTO:
  - Raising standard of living
  - Ensuring full employment
  - Increasing income
  - Expanding productivity/operations
  - Protecting environment (Conservation of natural resources and ecological balance)
- Main functions of WTO:

  - Administering and implementing multilateral and pluri-lateral trade agreements
  - Providing the forum for multilateral trade negotiation
  - Setting disputes
  - Overseeing/monitoring national policy (of member countries)
  - Building trade capacity
  - Extending cooperation with the IMF and the World bank
- The end
- **Reasons for using trade barriers X**
- **To correct a balance of payments (BOP) deficit**: this type of deficit occurs when the total payments leaving a country are greater than the money in receipts entering from abroad. The country then tries to limit imports and increase exports to make the balance of payments by imposing trade barriers on imports.
- **To ensure national security and supply**: the country sometimes restricts exports of critical raw materials, high technology, or equipment when such export purportedly might harm its own welfare or national security.
- **To protect domestic industries against competition of foreign goods:** This is generally on the grounds that infant industries need to be shielded from foreign competition during their start-up periods. A country usually offers protection to its domestic industries by taxing imports of similar foreign goods. The tax may be leveled as a percentage of the value of imports, which is called an ad valorem tariff. When a tariff is added to the price of a foreign products coming into a country. It raises the price of the item to the consumer.
- **Generate government revenue from tariffs on imports**: country apply tariff barriers in particular imported goods means that the country's government also collects in form of import duties on the customs. Tariffs are always a major source of government revenue in most countries including Nepal. Import duties or tariffs and value added tax are the two largest source of revenue in Nepal.
- **Non-tariff barriers:** Non-tariff barriers are rules, regulations and bureaucratic red tapes. They delay or prevent purchase of foreign goods. They limit imports by providing indirect non-price protection.
- **Quotas:** it is quantity limit on the volume of imports or exports. They restrict the number of units or share of market. Licensing can be used. A quota set at zero is called Empargo. It prevents imports from particular countries.

- Some countries resort to voluntary trade restraint for export and others tie-up imports with exports.
- **Subsidies:** it involves use of public funds by the government to lower costs. They can be

direct or indirect. They help domestic companies with imported products.

- **Local content requirement**: it specifies that a specified percent of value must be sourced locally to avoid import duties. Exports are subject to this restriction.
- **Technical and bureaucratic barriers**: they are restrictive specifications of technical standards. They relate to:
- Quality standards for products, laboratory testing
- Consumer safety, health and sanitary regulations; bio-security
- Packaging and labeling
- Quarantine requirements for imported goods
- Documentary requirements and bureaucratic delays in processing documentation
- Antidumping restriction
- **Procurement policies**: they favor domestic producers. A buy local policy is an example.
- **Exchange controls**: they restrict the availability of foreign currencies to pay for imports. Foreign exchange licensing and variable exchange rates can be used. Foreign earnings may need to be deposited in central bank for export earnings.
- **Para-tariff barriers:** They consist of border charges, fees, and local taxes other than tariffs on imports and exports. They can be:
- **Custom valuation systems**
- **Tariff classification systems**
- **Fees, special charges, local taxes**
- **Types of trade barriers**
- **Tariff barriers**
- **Non-tariff barriers (popularly known as NTBs)**
- **Para tariff barriers (G.R. agrawal)**
- **Tariff Barriers**: Tariff is a tax on goods that are traded internationally. It is added to the price of goods and directly provides price protection. The tariff barriers can be:
- **Export tariff:** it is a tax charged on goods sent out of country. It is generally ad valorem imposed as a percentage of value of goods exported.
- **Import tariff**: it is tax on goods brought into the country. It is known as customs duty. It is generally as valorem imposed as a percentage of the value of goods imported.
- Countervailing duty may be imposed on imports to offset export subsidy provide to

exporters.

- **Countervailing duty**: it is a permanent surcharge imposed on certain imports when the products are subscribed by foreign governments. It is charged on those imported goods to which the exporter's country have had given subsidy. In other words, countervailing duty is one which is imposed by the importing countries on the imports that had enjoyed in the subsidies in the exporting nation. Thus, such duties offset (compensate for) a special advantage or subsidy allowed by the exporter's government.
- **Specific duty**: it is a tax based on number of items exported or imported. The value of the goods is disregarded.
- **Compound duty**: it is a tax consisting of both ad valorem and specific duty. It is based on both the value and number of items imported or exported.
- **Transit tariff:** it is tax levied on goods passing through a country. Tariff barriers raise revenue, discourage imports and make local products more attractive

• Unit 4
International strategic management

- Strategy and opportunity Assessment:
- IB managers try to coordinate sourcing, manufacturing, and other value-adding activities on a worldwide basis.
- The firm must simultaneously respond to the specific needs and conditions of specific foreign markets where it does business.
- Role of strategy in international business:
- The firm that wants to become Globally competitive must simultaneously seek three key strategic objective-efficiency, flexibility, and learning.
    - Efficiency
    - Flexibility
    - Learning
- Assessing global market opportunities:
    - Analyzing organizational readiness to internationalize
    - Assessing the suitability of products and services for foreign markets
    - Screening countries to identify target markets

  - Assessing industry market potential
  - Choosing foreign business partners
  - Establishing company sales potential

- Estimating/Assessing market potential:
- Whether it is emerging/developing or developed countries, it is challenging task for managers estimating the market potential or demand for products in foreign markets.
- US, Japan and most of the countries are developed countries. On the other hand ha largest emerging countries are China, India, and Brazil; they have a combined GDP of more than $10 trillion, supporting that of the United States.
- Estimating market potential or demand in foreign countries managers in use of innovative research methods for gathering insights or data. It requires using econometric and statistical tools of analysis as well as policy analysis and effective interview and survey techniques and human resources having all these skills.
- To determine the potential demand, managers first estimate the possible sales of the category of products for all companies (i.e., industry demand or market potential), then estimate its own market share potential (i.e., company demand or company sales potential).
- Estimating industry market potential:
  - Size and growth rate of the market and trends in the specific industry
  - Tariff and nontariff trade barriers to market entry
  - Standards and regulations that affect the industry
  - Availability and sophistication of distribution for the firm’s offerings in the markets.
  - Unique customer requirements and preferences
  - Industry specific market potential indicators
- Indicators for assessing market potential and opportunities
  - GDP (gross national product)
  - Population
  - Personal income
  - Obsolescence and leapfrogging of products
  - Cultural factors
  - Costs
  - Income elasticity

  - Substitution
  - Income inequality
  - Buyer’s behavior
- Methods of estimating industry market potential
  - Simple trend analysis
  - Monitoring key industry-specific indicators
  - Monitoring key competitors
  - Following key customers around the world
  - Tapping into supplier networks
  - Attending international trade fairs
- Estimating company sales potential:
- Determination of company sales potential
  - Height of competition
  - Pricing and financing of sales
  - Quality of human resources
  - Risk bearing of top managers
  - Partner capabilities
  - Access to distribution channels
  - Timetable for market entry
  - Firm’s contacts and capabilities
  - Firm’s reputation
- Approaches to global management
  - Ethnocentric
  - Polycentric
  - Regio-centric
  - geocentric
- Approaches to global management
- Choosing a strategy (types of strategy and strategic choice)

- International strategy:
- Multi-Domestic strategy (Localization strategy):
- This strategy is to customize the firm's product (offering), management strategy and business strategy to the conditions of the foreign countries where it is operating. It is the strategy to localize a firm's products and business system as per the local conditions of the foreign country. The strategy is based on what we know of an English adage:"when you are at Rome, live on the Roman style".
- Global strategy (Global standardization strategy): A Global strategy is to focus on pursuing low-cost tactics. It tries to increase profitability by reaping the cost reductions that come from experience curve effects and location economics. Under this strategy, the firm concentrates it production, marketing and R & D activities only in a few favorable locations.
- Transnational strategy: It is an effort to create a balanced combination of all other strategies. It is a strategy involving a simultaneous focus on reducing costs, transferring skills and products and boosting local responsiveness in foreign markets.
- Advantages and disadvantages of different strategies:
- **Entering and operating in international markets: Entry strategies**

A. Exporting (and importing): This is the most commonly used method for entering foreign markets. Exporting may be defined as making a product in the firm's domestic market and selling it in another country.

- Exporting is generally performed either:
  - Through export agents, or
  - Through overseas marketing subsidiaries.
- Apart from direct exporting companies may also use indirect type of exporting in which they export goods through:
  - Trading company
  - Export management company (EMC), or
  - Peggy banking or market-Henning distribution channel
- Counter trade: counter trade refers to a range of barter like agreements by which goods and services can be traded for other goods and services, when a country's currency in non-convertible.

B. Collaborative ventures and strategic Alliances:

  - Strategic alliances: Strategic alliance (SA) is the collaboration of two firms to follow any specific strategy. Strategic alliance have two extreme types:

- Formal joint ventures in which two or more firms have equity stakes (e.g., Fuji-Xerox).

- Short term contractual agreements in which two companies agree to cooperate on a particular task such as developing a new product through R&D. Example of SA of IBM, Toshiba, and Siemens. In 1998/99, Nokia, Ericsson, and Motorola (which jointly accounted for 75 percent of the world's mobile phone sales then) formed a strategic alliance venture with Psion, a major producer of handheld computers.
    - Joint ventures: Joint venture (JV) is a collaborative arrangement between unrelated parties or firms which exchange or combine various sources while remaining separate and independent legal entities.
    - Consortia:
    - Management contracts
    - Turn-key operations
    - Foreign manufacturing alliances

C. Licensing and Franchising

D. Wholly owned subsidiaries (foreign investment mode)

- Greenfield
- Acquisitions

Mergers

- **Outsourcing and Global sourcing**:
    - Out sourcing: It is to purchase selected value-adding activities, including production of intermediate goods or finished products, from independent suppliers outside the company.
    - Global sourcing: It is the outsourcing of products or services from independent suppliers or company owned subsidiaries located abroad for consumption in the home country or a third country. Global sourcing is also called global procurement or global purchasing.
        - Global sourcing Vs domestic sourcing
    - Off-shoring: It is the relocation of a business process or entire manufacturing facility to a foreign country. It is to relocate your home country's business or factory plant to a foreign country. It is common in the service sector, including banking, software code writing, legal services, and customer-service activities.
- **Out sourcing and global sourcing in strategic management:**
- As companies look for a ways to grow simultaneously grow and maintain their competitive advantage, out sourcing has become a powerful new strategy or tool for achieving those goals. A firm's management strategy also consists in contract manufacturing, as it is outsourcing the actual production of goods so that the corporation can focus to search,

development, and marketing.

- Why outsourcing and global sourcing?
  - For obtaining lower prices
  - For getting higher-tech products overseas
  - For getting better quality products overseas
  - For obtaining better delivery service
- **MNCs and FDIs in the world Economy:**
- An FDI occurs when a firm invests directly in business to produce and/or market products in a foreign country. When a firm undertakes an FDI, it becomes a multinational company (MNC) or multinational enterprise (MNE). FDI also occurs when a firm buys an existing enterprise in a foreign country. Today, MNCs are the major players in the world economy.
- Multinational Companies:
- A Multinational company or corporation (MNC) is an organization with extensive international operations in two or more countries simultaneously. It is typically involved in producing and selling goods or services in tow or more countries. It consists of parent company in the home country and two or more subsidiaries in other host countries. The parent company and subsidiaries function with a high degree of strategic integration.
- United states “Multinational corporations, in the broad sense, cover all enterprises with control assets, factories, mines, sales office and the like, in two or more countries.”
- Transnational corporation (TNC), which is “a company that maintain significant operations in more than one country but decentralizes management to the local country”.
- Characteristics of MNCs
  - Simultaneous operation in multiple countries
  - Factors of production from multiple countries
  - System from the Home country applied to the host countries.
  - Virtual independence for subsidiaries
- Types of MNCs
- On the basis of management orientation
  - Ethno-centric MNC
  - Regio-centric MNC
  - Poly-centric MNC

  - Geo-centric MNC
- On the basis of purpose of organization:
  - Raw material seeker MNC
  - Market seeker MNC
  - Cost minimizing MNC
- Advantages of MNCs
- Advantages to host countries:
- Political benefits
- Economic benefits
  - They promote transfer of technology, capital and managerial and entrepreneurial skills (the factors of production) in favor of the host countries
  - They increase the exports of the host country: thus it helps improve the country's balance of payments
  - They generate jobs to reduce unemployment problems and create career opportunities in host countries
  - They increase availability of improved quality-products fro local consumers of the host country.
  - They improve competition in the host country by ending domestic monopolies
  - The host country also benefits from the 'knowledge and expertise' of MNCs. MNCs improve them continuously through efficient R&D activities.
  - They increase the revenue of the host country, as they are the major source of payments of tariff, taxes and other charges. Under Nepal Ltd is one of the top 10 income tax payers in Nepal.
- Cultural benefits
  - MNCs promote cultural exchanges and exposures that create awareness against blind faith and other hurting cultural practices.
- Disadvantages to host countries:
- Economic disadvantages
- Political disadvantages
- Cultural disadvantages
- Environmental disadvantages

- Advantage to home country:
- Advantages: global networks of manufacturing and distribution, they help make the costs of factors of production equitable around the world.
- Disadvantages: they flush out valuable capital and competitive technologies to foreign countries. This weakens the home country's competitive advantages
- Foreign direct investment(FDIs):
- FDI refers to the investment placed in business directly in business operations in a foreign country, thus it is international investment. In other words, FDI is the act of moving the capital across the border for the purpose of actively controlling property and ownership of a company in a foreign country.
- Types of FDIs
    - Greenfield investment (direct investment) and acquisition
    - Foreign portfolio investments
- Foreign investment and technology transfer Act (FITTA) was enforced in 1992 to replace old foreign investment and technology transfer Act of 1981. Nepal has tremendous potential of attracting FDIs in its various sectors of industry and service, but due to many internal and external factors, Nepal is yet to appear on the global FDI map, as a large majority of investors are not aware of Nepal's potential of FDIs.
- FDI as an alternative to trade: FDIs have emerged as recent years as an alternative to international trade, whereas international trade and investment are two major components of international business.
- Historically, IB has been a prominent feature of economic development of a number of countries for at least past 150 years, but the wave of foreign direct investment (FDI) issues was noticed more lately. US companies started in western Europe between 1946 and the mid-1960s.
- In fact, international trade and FDI influence each other. FDI in natural resources sectors including farming and plantations increase trade. FDIs can replace and substitute international imports.
- Growth and direction of FDIs
    - Growth: There was more than 4.4 fold growth of world FDIs in the past 20-25 years. As per UNCTAD's global FDI trends monitor 2013. global foreign direct investment (FDI) inflows declined by 18 percent in 2012. to an estimated US$ 1.3 trillion. As per the UNICTAD's world investment report, 2010, FDI inflow globally increased by 440 percent by the end of 2009, as the FDI in 2009 reduced US$ 1114 billion. FDI flows are expected to reach the level of $ 1.6 trillion in 2014 and $ 1.8 trillion in 2015, as per the UNCTAD world investment report, 2013.
    - Direction: Most FDI has been directed at the developed nations of the world, as firms

based in advanced economies have invested in the others' markets. The US has been one of the favorite targets for FDIs. UNCTAD's world investment report 2010 states that in 2009, developed economies received FDI inflow of US$ 566 billion, while FDI inflow into developing nations amounted to US$ 478 billion. Out of it, FDI inflow into least developed countries (LDCs) was US$ 2.5 billion only.

- Trends of FDIs
  - Fall in global FDI inflows
  - Rise in inward FDIs to developing economies
  - Rise in cross border M &As:
  - Stronger FD-investors from developing nations
  - Fall in FDIs within regional blocs
  - Continuous shift to service sector
  - FDI recovery hopes in near future
- FDI trend in Nepal: (Review of decades of FDI inflows)
- The FDI inflows into Nepal increased after the restoration of Democracy 1990, as the country adopted a liberal and open market policy. The FDI flow increased significantly after a full-fledged law foreign investment and technology transfer Act (FITTA) was enforced in 1992 to replace old foreign investment and technology Act of 1981. The trend of FDI inflows to Nepal in the past decade is mixed with both ups and downs. Counting from the new millennium, the FDI inflows decreased in 2002, because of the effect of September 11 attack in the US and upsurge of armed conflict (Maoist insurgency). The confusion and chaos created by infamous Royal massacre (killing of late king Birendra and his family) also tarnished Nepal's image in the international level.
- As the situation was making a little improvement after the reinstatement of the sacked prime minister Deuba in 2005, seizure of all state powers by the then king resulted in the biggest setback in Nepal's FDI inflow data, in 2006, the inflow was in the negative. Political instability in the subsequent years is to blame for slow growth of FDI inflows into Nepal.

• Unit 5
Functional areas of IB

- As firms go global, their management finds its functional areas more challenging and unpredictable than they are in the domestic business. Flourishing the business around that globe means that the companies have to change the strategic view of every organization that has expanded the management implications of all four management streams. To clarify the statement, if a company expands its business outside domestic borders, the company needs to perform activities in the following functional areas of management:
  - Operation and production management

  - Marketing management
  - Financial management
  - Human resource management

- **Operations and production management**: The stream of management has increased their role significantly as the companies trading globally need to formulate the strategy of mass production, through blending themselves with the concept of total quality management. Effective supply and utilization of resources, and cost-effective, efficient technology have become other major functional areas of management.
- **Marketing management:** The strategic view of marketing should be revised in order to coincide with the cross-cultural values of the countries the company is operating in.
- **Financial management:** The financial aspects act as the integral part of overall management and decisions of each and every functional area after analysis the financial consequences as well as contribution to achieve the financial objectives of the firm.
- **Human resource management**: All management plans and programmes need an efficient, well functioning team of human resources, human resources are extremely important strategic resources that can determine success of any firm operating both globally and domestically.
- Global production and operating management:
- Production and operations management is the function that concerns with the transformation of material resource inputs into outputs of goods (finished goods) and services. It is normally associated with manufacturing but it might equally involve other components of the function such as transportation. Warehousing and logistics.
- Three issues should be considered:
  - Where to produce
  - What to make and what to buy (to make by oneself or outsource from others)
  - How to coordinate a globally dispersed manufacturing and supply system.
- The above three are directly related to the following three components of global production operations management:
  - Global production/manufacturing
  - Global sourcing and logistics, and
  - Supply chain management
- Global production and manufacturing:
- It basically concerns with where to produce. While choosing the location of the production, the IB managers should consider country factors, technological factors and product factors.

  - Company factors
  - Technological factors
  - Product factors
    - Market entry strategy/modes
    - Global manufacturing strategy
    - Manufacturing compatibility
    - Manufacturing configuration
    - Manufacturing coordination
    - Manufacturing control
- Outsourcing:
- Benefits of outsourcing
  - Cost efficiency
  - Higher-tech products
  - Better quality products
  - Better delivery services
- Risks (challenges) of out sourcing/global outsourcing:
  - Cost lower than expected cost savings
  - Environmental factors
  - Weak legal environment
  - Inadequate or low skilled workers
  - Overreliance on suppliers
  - Risk of creating competitors
  - Erosion of morale and commitment
- Logistics:
- Logistics is an important dimension of the supply chain management. Logistics is that part of supply chain process that plans, implements, and controls the efficient, effective flow and storage of goods, services and related information from the point of origin to the point of consumption, to meet customer's needs.
- Logistics incorporates:

  - Information
  - Transportation
  - Inventory
  - Warehousing
  - Materials handling
- The logistics function is complicated in an international business because of the following:
  - Wide geographic distance
  - Time
  - Exchange rates
  - Customs and trade barriers
  - Multiple legal environment
  - Costly nature of distribution infrastructure
- Managing global supply chain
- A company's supply chain involves the coordination of materials, information and funds from the initial raw material supplier to the ultimate customer. It is the added process from the supplier to the customers' customer. In the global context, the supplier can be located in the countries where the manufacturing or assembly takes place, or they can be located in the one country and shipped to the country of manufacture or assembly.
- The concept of supply chain and value chain are related but distinct. The value chain is the collection of activities intended to design, produce, market, deliver, and support a product or service.
- The supply chain is the collection of logistics specialties and activities that provides input to manufacturers or retailers. Supply chain management involves a series of value adding activities that connect a company's supply side with its demand side.
- The logistic function is complicated in an international business because of the following:
  - Wide geographic distance
  - Time
  - Exchange rates
  - Customs and trade barriers
  - Multiple legal environment
  - Costly nature of distribution infrastructure

- As a result, the more diverse the firm's global supply chain, the greater the cost of logistics.
- Managing global supply chain
- The global supply chain management strategy should include the following elements:
  - customer service requirements
  - Plant and distribution centre network design
  - Inventory management
  - Outsourcing and third party logistics relationships
  - Key customer and supplier relationships
  - Business processes
  - Information systems
  - Organizational design and training requirements
  - performance matrix
  - Performance goals
- Total quality management:
- TQM as a process that aims at eliminating all defects in production and stresses three principles:
  - Customer satisfaction
  - Employee involvement
  - Continuous improvements
- It is often focuses on bench marking world-class standards and product and service designs. ISO 9000 is an example of general level of quality standards. It is an European set of quality standards intended to promote quality at every level of an organization.
  - Quality circle: quality circle are small work groups that meet periodically to discuss ways to improve their functional areas and the product quality continuously.
  - Six sigma: it is modern successor to TQM. It is a statistically based philosophy that aims to reduce defects, boots productivity, eliminate wastage, and reduce costs throughout a company. It is Greek letter 'Sigma'.
- Inventory management: As discussed above, inventory management focuses more on the transportation and storage of materials and final goods, so that production efficiency and production can be achieved without affecting uninterrupted flow of production. JIT technique is now days much popular.

- Transport management: Transport management particularly relates to managing or even building transportation networks for global operations of business. Transportation links together suppliers with manufacturing companies and then with customers and final users.
- It involves decisions on selecting and using the most suitable and efficient means of transportation. Most of the international trade takes place by ships or water transportation. Other alternative modes of transport include air, pipes, ropeways, and roads.
- Global marketing management:
- Concept of global marketing and marketing strategy:
- Global marketing is the multinational process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods and services to create exchanges that satisfy individual and organizational objectives.
- The global marketing may be defined as a marketing process of focusing the resources and objectives of a company on global marketing opportunities.
- The areas of global strategy can be:
- Product strategy
- Pricing strategy
- Promotion/marketing communication strategy
- Distribution strategy
- Global marketing strategy: (*choice between standardization and adaptation*):
- Adaptation strategy is the strategy in which the firm modifies one or more elements of its global marketing program to accommodate specific customer requirements in a particular foreign market.
- Adaptation/customization strategy has at least four outcomes/benefits: a) meeting the local customer needs more precisely, b) creating unique appeal for the product, c) complying (matching) with local or national laws, and d) achieving greater success in competing with local and global rival companies.
- Standardization: Standardization strategy is that makes the marketing programme elements uniform, with the same product or services in different target markets, sometimes even the global marketplace. Standardization strategy is remarkable for three outcomes/benefits: a) cost reduction, b) improved planning and control, c) ability to develop a consistent image and build global image.
- Product strategies:
- Global marketing strategy in branding and product development poses unique challenges and opportunities for managers. whether product sold in the global markets.
- l issue in approaching me market should be adapted or standardized for foreign markets; it

is the central.

- As stated above the firm has to choose between two examples: 1) adapting to the point of creating an entirely new product, and 2) keeping in the product exactly the same.
- Important considerations in product strategy and planning:
- Firms product-mix strategy consists in the following:
  - Branding (the trade marks)
  - Packaging
  - Labeling
  - Warranty and services
  - Country or origin (CoO)
  - International product life cycle
  - Consistency of product lines (width, depth, and length of product mix)
- Exporting the home market product (standardized products)to foreign markets
- adapting home market product to meet foreign customers needs more closely
- Developing new products to meet the specific needs of those buyers
- Global branding:
- When a firm enters and positions itself in global markets, it results into development of a global brand. There are many well-known global brands in various product categories; for example, Barbie, visa and master card, Gillette sensor Cadbury etc.
- Global brands are that reach the world's mega-markets and are perceived as their brand by consumers and internal constituents.
- There are few considerations for developing global branding strategies:
  - Choosing between global brand and a localized brand in a given foreign market
  - Cultural meanings of brand names
  - Protection of the brand against piracy (intellectual property) and counterfeit (Fake) products brands
  - Government regulations and practices on brands and trademarks
- New product development:
- It is to develop a new product for the new foreign market.
- New product development process:

  - Idea generation
  - Idea screening
  - Concept development and testing
  - Marketing strategy development
  - Business analysis
  - Product development and testing
  - Test marketing
  - Communication

- Why product innovation?
- As a product strategy, firms may also choose innovation of an entirely new product for a given foreign market, particularly for the following reasons:
  - Innovative products carry significant export potential in the foreign markets.
  - The marketer whose products face declining sales in one foreign market may find another foreign market with encouraging demand for his product. And,
  - Innovative products improve the ‘staying power’ of the international firm in the given market.
- Pricing and strategy:
- Pricing is complex in international business because there are multiple currencies, trade barriers, additional cost considerations, potential government regulation, and typically longer distribution channel.
- Fair price
- It is also very important for the managers to understand that buyers prefer ‘fair price’. Fair price is either low or high as long as it reflects the perceived value of the product.
- Fair price is generally preferred by buyers, because:
  - Fair price is either low or high as long as it reflects the perceived value of the product
  - Too high price discourage buyers
  - Too low price incurs loss to the marketing firms
- Price discrimination:
- In a number of cases, consumers in different countries are charged different prices for the same product or services.
- Price escalation: international price escalation is a big challenge for exporters in pricing

because it raises the prices for end-users (customers) to very high levels in the export market.

- Gray market activities:
- Price variations among different markets can lead to gray market activity-legal importation of genuine products into a country by intermediaries other than authorized distributors (also known as parallel imports)
- Pricing strategies:
- Pricing policy and strategy are especially important in international marketing, as it makes substantial effects on the following:
    - Product positioning
    - Demand management
    - Market segmentation
    - Market share dynamics
- Pricing strategies in marketing are:
    - Standardized pricing and local pricing
    - Cost-based pricing
    - Aggressive export pricing
    - Penetration pricing and skimming pricing
    - Transfer pricing
- Pricing strategies to manage varying currency condition
- Marketing communication and strategies:
- Strategy on standardization and adaptation
    - Standardization
    - Adaptation
- Strategy on media choice and communication/advertising methods
- Media policy and strategy are:
    - Availability of media
    - Coverage of media
    - Appropriateness/effectiveness of media

  - Cost of media
- Options for media choice
  - Using ad agencies (external)
  - Using company's own advertising personnel (internal)
- Strategy on creative communication:
  - Language factors
  - Legal factors
  - Socio-cultural factors
  - Production and cost factors
- Distribution strategies:
- Types of international distribution channels/ intermediaries:
- Using established channels
- Building company's own channels
  - Home-country channels/middlemen
  - Foreign country channels/ middlemen
  - Alternative international distribution structures
- Home country channels:
  - Export management companies
  - Trading companies
  - Home-country brokers and agents
  - Piggybacking or mother Henning
  - Webb-Pomerene associations of exporters
  - Foreign sales corporation
  - Export merchants
- Foreign-country channels/middlemen
  - Merchant middlemen
  - Agents and brokers
  - Manufacturer's representative

  - Management agent
- Alternative international distribution structure
  - Net work marketing
  - Multi-level marketing
- International distribution strategy:
- it is critical element in a firm's international marketing mix. It is the means for delivering the product to the target customers. The way the product is delivered to the consumer is determined by the firm's entry strategy.
- Developing distribution strategies: In developing and selecting the channels or distribution strategy in international business, the following factors need attention, as they cause difference between countries. They are also the major factors affecting such channel selection decisions:
  - Retail concentration
  - Channel length
  - Channel exclusivity
  - Other marketing consideration
- Other market considerations:
- A) consumer/market consideration
  - Type of consumers/market
  - Channel coverage
  - Order size
- B) company considerations
  - Desire for control
  - Managerial ability and experience
  - Financial resources
  - Service required
- C) Product considerations
  - Nature of the product
  - Unit value of the product
  - Technical product

- D) Competitive environment
- E) Costs
- F) Intermediary considerations
    - Services provided by intermediaries
    - Availability of desired intermediaries
    - Sales volume possibilities
    - Middlemen's attitude
- Global e-marketing strategy
- Global e-marketing strategies:
    - Business to business (B2B)
    - Business to consumers (B2C)
    - Consumers to business (C2B)
    - Business to government (B2G)
    - Government to business (G2B)
- Alternative e-business strategies
    - Brick and mortar
    - Pure click
    - Brick and click
- Strategies on E-documentation of trade
- Global e-marketing may come up with a strategy to benefit from efficient documentation in traditional trade through online facilities. Since manual documentation and processing has been both costly and inefficient data interchange (EDI) has been introduced using EDI.
- The firm can active efficiency as well as time and cost saving in its global marketing, efforts; particularly in order placement, order-processing and distribution.
- Automatic system facilitate traders, trade brokers, being freight forwarders and importers and exporters.
- Financial management in IB:
- In a globalized business world, there is an increased need for generating new innovative ideas regarding the proper allocation and effective utilization of the financial resources.
- In addition to it, the companies operating globally need to focus themselves towards

receivables management, cash management, and inventory management and every single aspect of finance that will lead to effectiveness in operating the business houses.

- For companies operating in global markets, the financial management deals with the two major functions:
  - Acquisition of financial resources, and
  - Allocation of financial resources among the company's present and potential activities and projects
- Key functions of international financial management
  - Deciding on capital structure/sources of funds for the company's international operations
  - Raising funds for international operations of the firm
  - Management of working capital and cash flow
  - Capital budgeting for international operations
  - Management of currency risk
  - Management of international accounting and tax practices
- Sources of funds for international operations:
  - Global equity financing
  - Debt financing
    - International loans
    - Eurocurrency market
- Investment decisions
- When deciding to invest abroad, managers should evaluate:
  - The cash flows from their local operations as well as
  - The cash flows from the project to the parent company
- Capital budgeting
- NPV analysis of capital investment projects:
  - Different reporting currencies
  - Separate cash flows
  - Political, legal and economic risks

    - Challenge in link between cash flow with finance source
- Cash flow estimation
- Accounting standards and financial management:
- Proper accountancy provided required information for financial management of MNC's. But, it will not be possible until and unless accounting follows international accounting standards and local government regulations. IB managers must harmonize accounting standards of parent company and subsidiary company.
- Three accounting standard issues are extremely critical to financial management in international business: transactions in foreign currency, currency translation methods and taxation of foreign income.
- Transactions in foreign currency
    - Recording of transaction
    - Following correct procedure
- Translation of foreign currency financial statements:
    - Translation methods
    - Current rate methods
    - Temporal methods
- Taxation of foreign-source income
- Tax practices:
- Government across the world have the authority to impose tax on the business firms in their country or within their jurisdiction. Each government wants to tax all companies within its jurisdiction. Tax practices and taxation system vary between countries.
- Foreign tax credits:
- Foreign tax credits are an automatic reduction in domestic tax liability when the firm can prove it has already paid income tax abroad, when theses two countries have tax treaty.
- Currency risk management:
- Managers should try to project corporate assets from exchange losses i.e., from losses due to forex rate changes or fluctuations.
- Typically, currency risk management in global operations involves:
    - Defining and measuring exposure
    - Setting up a good monitoring and reporting system

  - Adopting a policy to assign responsibility for exposure management
  - Formulating strategies for hedging exposure
- Types of currency exposure risks:
  - Transaction exposure
  - Economic exposure
  - Translation exposure
- The lessard-Lorange model:
- This model has been suggested by Donald Lessard and Peter Lorange that recommend three ways:
  - The initial rate
  - The projected rate
  - The ending rate
- International human resource management:
- Staffing policy
- Developing staffing policy
  - Ethnocentric staffing approach
  - Polycentric staffing approach
  - Regio-centric staffing approach
  - Geo-centric staffing approach
- Diversity management:
  - Diversity in terms of attitude towards women
  - Diversity in terms of culture and religion
  - Diversity in terms of race/ethnicity
  - Diversity in terms of language
  - Diversity in terms of educational/training backgrounds
  - Diversity in terms of the VANEG (value, attitude, norms, expectations, and individual goals)
- Labor relations

- Management issues in labor relations
    - Unionization of labor
    - LR dimensions
        - A paradox
- Collective bargaining practices
- Code termination
- ILO’s role and influence
- Cost, quality, and productivity of labor
- Preparing employee for repatriation:
        - Reverse culture shock
- Repatriation tends to cause difficulties in many areas, most notably:
    - Financial
    - Work, and
    - Social
- In preparing employees for repatriation and reducing repatriation problems, a number of plans techniques may be advised:
    - Counseling
    - Monitoring compensation and career path
    - Interim financial support
- The end